Austria	Sch30	Iran	[illegible]	Pakistan	Rs20
Bahrain	Din0.950	Israel	Shk4.00	Philippines	Peso40
Belgium	BFr60	Italy	L2200	Poland	Zl11,000
Cyprus	C£1.00	Jordan	JD1.20	Portugal	Esc150
Denmark	DKr13	Korea	Won2000	Qatar	QR10.00
Egypt	E£3.50	Kuwait	Fils.500	S.Arabia	SR10
Finland	Fmk8.50	Lebanon	L£1,000	Singapore	S$4.10
France	FFr7.50	Lux	LFr60	Spain	Pta175
Germany	DM3.00	Malaysia	M$4.25	Sweden	Skr13
Greece	Dr200	Morocco	MDh10	Switz	SFr2.70
Hungary	Ft120	Neth	Fl 3.50	Thailand	Bht50
Iceland	IKr180	Nigeria	Naira15	Tunisia	Din0.850
India	Rs20	Norway	NKr13.00	Turkey	L3000
Indonesia	Rp3100	Oman	OR1.20	UAE	Dh8.00

EUROPE'S BUSINESS NEWSPAPER

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D 8523A

ROBOTICS
A chemist's new friend
Page 12

World News

Refusal by witnesses puts Mandela trial in doubt

Two key witnesses refused to testify at the trial of Mrs Winnie Mandela on charges of assault and kidnapping, pushing the prosecution case close to collapse. Page 3

Reformist resigns

Gennady Filshin, reformist deputy premier of the Russian Federation, resigned saying he was victim of a campaign to undermine the republic's liberal leadership. Page 16

Sentence overturned

US television evangelist Jim Bakker's 45-year jail sentence *for fraud was overturned in* Richmond, Virginia, on grounds that the judge may have been biased. He will be resentenced.

Kenya rangers held

Two Kenyan wildlife rangers were charged with the 1988 *murder of British tourist* Julie Ward, whose charred and mutilated body was found in a game reserve.

Pilgrims crushed

About 35 pilgrims were crushed to death during an Ash Wednesday ceremony at Chalma, near Mexico City, as thousands pushed their way into an already crowded church.

Lithuania arrests

KGB security police arrested three anti-military campaigners *investigating the Soviet* army's storming of a Lithuanian *television tower, a Lithuanian* spokesman said.

Pirates loot ship

Armed pirates attacked a small Danish ship with machine guns in the central Gulf overnight, stealing money and documents, Lloyd's shipping intelligence reported.

Airliner turns back

A United Airlines jumbo jet carrying *316 passengers* and crew returned to Tokyo after *a man claiming to have a bomb* threatened the pilot en route to San Francisco.

Arabic preferred

President Chadli Benjedid signed a controversial law that makes use of Arabic mandatory in virtually all spheres of Algeria's public and commercial life.

China tempts exiles

China has offered some exiles living in France an unconditional return home. The news followed French concern at *heavy sentences on pro-democracy* activists.

Hong Kong blast

A parcel bomb exploded in the Holiday Inn Golden Mile hotel in Kowloon, Hong Kong, injuring three hotel staff, one seriously. Page 3

Albanians defy ban

Albanian refugees are still trying to flee to Greece and Yugoslavia *although both countries* have been sending back those *who enter* illegally.

Namibia bombed

Three unidentified aircraft dropped 38 bombs over north-eastern Namibia, wounding two women and two children.

Bulgarian trial

Stoyan Ovcharov, minister in the disgraced Bulgarian government of Todor Zhivkov, went on trial accused of *siphoning money from state* coffers.

Khmer Rouge attack

Khmer Rouge shells killed at least 16 civilians and wounded dozens in Battambang, Cambodia's second biggest city.

Order to González

The Spanish High Court ruled *that prime minister* Felipe González and two other ministers must give evidence in the trial of two policemen accused of involvement in a secret war against Basque guerrillas.

Business Summary

Compagnie de Suez buys out remaining SGB shares

Compagnie de Suez, the French investment group, is to buy out the last remaining shares in Société Générale de Belgique, the Belgian industrial holding company it won control of two years ago after a *battle* with Carlo De Benedetti's Cerus.

The deal values Cerus's remaining 9.96 per cent stake in *La Générale* at FFr2.05bn ($414m) or BFr1,950 a share, compared with an average acquisition cost of about BFr3,100. Page 17

EUROPEAN *Commission* has proposed target rate for excise duties on petrol and diesel that could involve large rises in tax on petrol in most EC countries after 1992. Page 16

NORTHERN Telecom, Canadian telephone equipment maker, is splitting its three-year-old world trade division into two units. Page 17

NIGERIA has reached agreement in principle with Soviet Union on rescheduling estimated $900m debt. Page 16

HANSON, diversified UK conglomerate, announced results showing pre-tax profits up 7.1 per cent to £241m ($477.2m) in three months to December, but warned of effects of recession on group. Page 17; Lex, Page 16

AUSTRALIA'S federal treasurer said South Australian state government should sell State Bank of South Australia, which declared potential losses of A$1bn ($792m). Page 3

US retail sales continued to slide in January, falling 0.9 per cent in cash terms to $148.2bn. Page 16

IBM, world's largest computer maker, has signed product licensing, *distribution and support* agreement with Novell, developer of computer network software. Page 19

PRUDENTIAL-Bache Securities: George Ball resigned after *nine years as chairman and* chief executive of troubled Wall Street securities house. His post will be filled temporarily by Robert Beck, chairman of parent company, Prudential Insurance. Page 17

BEEF exports from European Community dropped by 284,000 tonnes last year, partly because of loss of Iraqi and Kuwaiti markets and impact of UK's "mad cow disease". Page 28

BRITISH Steel plans to cut 800 jobs at its Scunthorpe steel-*making works*, bringing the number of redundancies to 3,000 since last April. Page 16

TELECOMMUNICATIONS: US Federal Communications Commission will decide on contro*versial request further to liberalise* US telecommunications market by treating foreign-owned US companies like their US counterparts. Page 7

CHANTIERS d'Atlantique, *France's only big shipbuilder*, has won a FFr7bn ($1.39bn) order from shipping subsidiary of Malaysia's national oil group Petronas for five liquid natural gas tankers. Page 7

SEMICONDUCTORS: Senior official of US Semiconductor Industry Association says renewal of 1986 Japan-US semiconductor trade agreement would deter political adventurism in the sector. Page 7

US BANKS: Changes in policy of protecting *deposits of troubled* banks have been proposed by *main* banking groups as part of plan to bolster deposit insurance fund. Page 6

JAPAN'S trade surplus increased *threefold last* month, against January 1990. Page 3

ASEA Brown Boveri, Swedish-controlled power engineering group, is to take over Automatisierungsanlagen Cottbus, east German heavy electricals company. Page 4

US claims Baghdad bunker was military centre

By Peter Riddell, US Editor, in Washington

THE US yesterday claimed that a Baghdad bunker, in which Iraqi officials said more than 400 civilians died when it was destroyed by an allied air raid, was a "military command and control centre".

The heavy loss of civilian life, by far the most serious recorded in four weeks of war, seemed certain to inflame both the emotions and the debate surrounding the war aims of the coalition forces seeking to *force Iraq to* withdraw from Kuwait.

Aware of its potential vulnerability on the issue in the eyes of both domestic and international public opinion, the White House issued a lengthy statement justifying the US action.

According to western reporters who had spoken to rescue workers in Baghdad many of the estimated 400 dead were women and children. An official said to be in charge of the shelter bunker claimed that no military personnel were in the building. "It is allocated to civilians," he said.

*Brigadier-General Richard Neal insisted at a US war brief*ing in Saudi Arabia that the shelter was used as a military command and control facility. The bunker had become more active in the past two weeks and the roof recently camouflaged, he said. "We do not feel like we attacked the wrong bunker or made a mistake. We feel very comfortable that the attacked target was a legitimate target."

Although it was an air-raid shelter in 1985 it was upgraded to a hardened shelter used for *command and control*. He noted media reports that there were no air raid sirens when the bunker was hit.

"From a military point of view nothing went wrong," he said. "From a personal point of view I'm outraged that civilians might have been placed in harm's way."

Mr Dick Cheney, the US defence secretary, said there was now an increasing shift from attacking strategic targets in Iraq to military targets in Kuwait. He said there was no question in his mind that the bunker was a military target which had been intentionally hit by two bombs aimed with "great precision".

Even before the latest events, the White House was sensitive to the increasing number of television reports from Baghdad showing civilian casualties. On Tuesday President George Bush accused the Iraqi leadership of running a "one-sided propaganda machine cranking out a lot of myths and falsehoods". He said a lot of Iraqi brutality had been overlooked.

While regretting the loss of civilian lives as a "tragic consequence," the White House statement stressed that the allies would continue to hit only military targets. "The bunker that was attacked last night was a a command and control centre that fed instructions directly to the Iraqi war *machine, painted and camouflaged* to avoid detection, and well documented as a military target."

"We don't know why civilians were at this location. But

Continued on Page 16
Other Gulf news, Page 2

UK trims base rates and links future cuts to EMS

By Peter Norman, Philip Stephens and Rachel Johnson in London

THE BRITISH government yesterday cut bank base rates by a cautious half percentage point and warned that future cuts would depend on sterling's position in the European Monetary System (EMS).

Speaking hours after the Bank of England's money market operations signalled a cut in bank base rates to 13½ per cent from 14 per cent, Mr Norman Lamont, chancellor of the exchequer, emphasised repeatedly that his commitment to preserving sterling's value in the EMS exchange rate mechanism (ERM) was unshakeable.

The government's moves came after a growing clamour from industry, in parliament and in parts of the City of London for action to offset a deepening recession with its toll of bankruptcies and rising unemployment.

But the limited size of the cut, which came despite sterling's position as the weakest currency in the ERM and only after considerable agonising by *the Bank of England and the* Treasury, led to a muted welcome from business and financial markets.

Sir Brian Corby, president of the Confederation of British Industry, the employers' organisation, said: "The fall in interest rates will not be enough on its own to reverse the downturn. It is crucial that the reduction in UK borrowing costs is sustained."

Although Britain's big banks, headed by Barclays, *were quick to follow the* authorities' lead, it was unclear how far they would pass on the cut to their personal and business customers. The banks are under pressure to increase their profit margins. Building societies, meanwhile, made clear that the relaxation was insufficient to permit them to lower their mortgage lending rates.

Facing a sharp attack from Mr John Smith, the opposition Labour party's finance spokesman, and occasional sniping from right-wing Conservative MPs, Mr Lamont said repeatedly in the House of Commons that further reductions in interest rates would depend on sterling holding its position in the ERM.

Mr Lamont said the devaluation of the pound sought by some right-wing economists and their supporters among Tory MPs would be a ticket to "renewed inflation and higher interest rates".

However, he tempered a firm restatement of the government's anti-inflation policy with a hint that the annual rate of price increases could be below *his previously* forecast 5.5 per cent at the end of this year. Even within the constraints of the ERM: "That means that our interest rates will eventually fall to reflect our progress in the fight against inflation."

Mr Lamont similarly combined an admission that he was unsure of the likely depth and duration of the recession with a confident forecast that the fall in the inflation rate would be followed by a sustained upturn in economic activity.

The latest interest rate cut *was the first since Britain has* been operating its monetary policy with sterling as a full member of the EMS. The cut contrasted with the previous 1 percentage point reduction announced on October 5 at the same time as Britain's joining the ERM. That cut was later criticised by the Bank of England, among others, for having seriously dented sterling's credibility in the system.

Although yesterday's cut came when sterling was well below its DM2.95 central rate, London's financial markets *were stable in its wake*. The lack of sharp reaction reflected the extent to which an easing of monetary conditions to soften the recession was already discounted in the values of the pound, stocks and bonds.

Only the timing of the move surprised the markets, which had been half-expecting a cut to accompany tomorrow's publication of the retail prices index.

The pound rose to close at DM2.9000, after DM2.8960 on Tuesday. Sterling, however, remained at the bottom of its grid in the ERM.

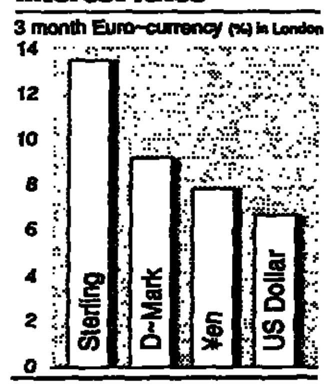
Mr John Sheppard, economist at Warburg Securities, the London investment house, said: "Further cuts now appear to depend on when the Bank of England judges one to be safely discounted in the markets."

Money market rates sank to reflect both the cut and the expectation that there would be another reduction around the time of the Budget on March 19.

Equities in London rose initially on the news before settling back. The FT-SE 100 share index closed up just 3.3 at 2267.8. Stock markets, like sterling and short-dated bonds, had already discounted a half a point cut at least.

Background, Page 8; Editorial comment, Page 14; Lex, Page 16; Markets, Second Section

Interest rates



Norman Lamont: committed to preserving sterling's value

Soviet factory's failure is threat to 35,000 jobs

By Leyla Boulton in Moscow

THE Soviet Union's biggest tractor plant, with 35,000 employees, stopped production *after running out of steel* sheets, Komsolmoskaya Pravda newspaper reported yesterday.

The Volgograd Tractor Factory, one of the country's largest enterprises, was forced to dig into strategic reserves intended for wartime before it finally closed its main assembly line at the end of last week.

The state-owned plant, whose tractors kept Soviet agriculture going through the *Second World War, ran into* trouble when its main supplier, the Novolipetsk metallurgical combine, suspended deliveries of cold-rolled sheets at the start of this year. A last-ditch mission to Novolipetsk by the secretary of the plant's Communist party cell was of no avail, the newspaper said.

The latest emergency is a vivid illustration of the chaos building up in crucial sectors of Soviet industry as a result of the relentless collapse of the old *administrative-command* system.

The plant has also been starved of its steel imports from west Germany, presum*ably because of the central* government's hard-currency crisis.

It is not clear what options are open to the plant, which may have to lay off its workforce until supplies resume.

Komsomolskaya Pravda said officials at the Ministry of Automobile and Agricultural Machinery Construction, the plant's ultimate master, seemed "remarkably calm" *about the problem*.

"The economic collapse of the flagship of the Soviet tractor industry is not perceived as a sensation at the ministry," the newspaper said.

● The Baltic republic of Estonia has decided to create a free-economic zone in the mainly Russian-inhabited industrial centre of Narva, according to the independent news agency Postfactum.

Continued on Page 16
Pavlov fantasy, Page 4; Russia's deputy premier quits, Page 16

UK *to issue* Ecu bonds

By Stephen Fidler in London

The UK government announced the launch yester*day of its first bonds issued in* Ecu in a move aimed at *improving the position of London* as the prime financial centre for trading in the composite currency.

The issue, an Ecu2bn, 10-year Eurobond, is being lead managed by Morgan Stanley International, the London arm of the Wall Street investment bank. The final terms of the issue have not been set, but *the government will borrow at* fractionally below the cost *implied by the price of existing* French government Ecu *bonds of equivalent maturity*.

The proceeds will supplement foreign exchange reserves, although this was not said by officials to be the reason for the issue.

Details, Page 17

Britain may block US air fare cuts as next stage of price war

By Andrew Jack in London and Nikki Tait in New York

BRITAIN may block transatlantic fare cuts by *American airlines in retalia*tion for similar action by the *US against British Airways* late on Tuesday.

Officials at the UK Department of Transport were meeting yesterday to consider their response to their US counterparts, who have refused to extend BA's plans to cut some fares by up to one third over the summer.

The US Transportation Department *said it would only* allow BA's price reductions if a *deal could be reached on take*off and landing "slots" for US airlines at London's Heathrow airport.

Mr Malcolm Rifkind, the UK transport secretary, said last night he was surprised at the US decision. "I find it *difficult* to believe that any linkage could be made with *the Heath*row access issue," he said.

Political pressure is rising for Mr Rifkind to make a swift response. Mr Douglas Hoyle, chairman of the Labour party's trade and industry committee, said yesterday: "In a couple of words, we should simply tell them to 'get stuffed'."

Lord King, chairman of BA, said the US move was "not *unusual" but the airline added* last night that it was "extremely disappointed".

The latest price war began earlier this week when BA announced plans to cut the price of some transatlantic fares by a third. Other international carriers rapidly followed with cuts of up to 50 per cent.

But the US Department of *Transportation has now asked* BA for more information on the reason for the reductions, and only approved the special fares until the end of April.

A letter sent yesterday to Britain's Transport Department from Mr Samuel Skinner, US transportation secretary, *linked any extension of the* reduced fares to the successful *outcome of negotiations to* allow American Airlines and United Airlines to take over Heathrow landing rights controlled by Pan Am and TWA.

But Mr Rifkind said: "It would be perverse for the US government to penalise American travellers because of its disappointment with the pace *of the negotiations when we* stand ready to resume whenever the Americans wish."

Fare approvals have often been little more than a formality in the past, and BA has already begun selling fares at the reduced levels. The company said it would continue selling *tickets until it* made a new application to the US authorities by midnight tonight, UK time.

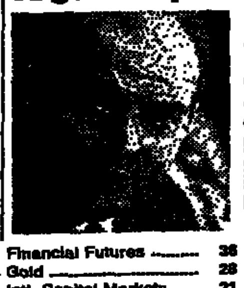
One leading New York travel agent reported a more aggressive stance from Trans World Airlines, which had responded to the BA fare cuts with 50 per cent reductions.

It said the TWA agent had made contact before business opened yesterday, stressing that the carrier's cheap fares were still on offer. But, in con*trast to BA's, he said* that public demand had been slight. "Unfortunately, no one wants to go to Europe," he commented. "They prefer the Caribbean at present."

Victims of their own ambitions, Page 14

CONTENTS

Cavallo acts to rein in Argentine price rises



Domingo Cavallo, Argentina's economy minister, has decided on a carrot-and-stick approach to force *companies to lower* prices, as the country grapples with rising inflation

Page 6

MARKETS

STERLING
New York lunchtime: $1.9918
London: $1.991 (1.992); DM2.9 (2.895); FFr9.88 (9.865); SFr2.4875 (2.48); Y257.0 (255.5); £ index 94.8 (94.3)

GOLD
New York: Comex Apr $369.5 (370.3)
London: $368.25 (368.25)

N SEA OIL (Argus)
Brent Apr $19.425 (19.425)

Chief price changes yesterday: Page 17

DOLLAR
New York lunchtime: DM1.458; FFr4.969; SFr1.24965; Y129.23
London: DM1.4565 (1.453); FFr4.9625 (4.9525); SFr1.2495 (1.2445); Y129.05 (128.25); $ index 59.5 (59.4)
Tokyo close: Y128.65

US lunchtime rates
Fed Funds $6\frac{1}{8}$%
3-mo Treasury Bills: yield: 6.02%
Long Bond: 99; yield: 7.958%

STOCK INDICES
FT-SE 100: 2,267.8 (+3.3)
FT Ordinary: 1,791.7 (+10.6)
FT-A All-Share: 1,089.16 (+0.3%)
New York: *DJ Ind. Av.* 2,872.52 (−2.23); S&P Comp 364.98 (−0.52)
Tokyo: Nikkei 25,139.47 (+204.46)

LONDON MONEY
3-month interbank: closing $13\frac{1}{4}$% ($13\frac{3}{16}$)
Liffe long gilt future: Mar $93\frac{7}{16}$ ($92\frac{25}{32}$)

THE GULF WAR

Signs from the front suggest land war soon

By Tony Walker in Dhahran

WHILE political leaders in Washington and London say they will not be rushed into a ground offensive, all the signs from the front indicate that a land battle is near.

Tuesday's combined US and Saudi Arabia artillery and rocket bombardment, supported by the battleship USS Missouri, of Iraqi troop concentrations in Kuwait was a prelude of things to come.

The ground offensive would be heralded by a furious artillery barrage against Iraqi positions, and probably by probing operations carried out by US Marines and other frontline troops.

Despatches from the front build up a picture of heightened readiness and expectations that any day now orders will be given for the land offensive. Combat units continue to move forward as commanders prepare their men for battle.

While the Gulf war has been dominated by the air campaign, highly mobile Marine units have been duelling with Iraqi ground forces all along the Kuwait-Saudi border.

In an engagement earlier this week, a Marine raiding party drove forward in its light armoured vehicles and attacked an Iraqi observation post under cover of darkness. The raiding party rained hundreds of mortar and 25mm cannon rounds and TOW missiles on to the Iraqi position, then disappeared moments later into the Saudi desert. The Iraqis did not return fire, and the post was left a smouldering wreck.

"That's just what we wanted to do – go in and wreak some destruction on the enemy and get our people out. The enemy had to be thinking, what the hell is firing out there," said Capt Mike Shupp, the Marine commander.

Operating from the barren Saudi desert, Marines have launched numerous night time attacks on Iraqi positions inside Kuwait.

A clear sign to soldiers in the field that a land war is coming is the fact that the air campaign has shifted much closer to them in the last week or so. Allied aircraft are now hitting ground targets just across the border in Kuwait round the clock.

Dozens of fires are raging in Kuwaiti oil fields, and a thick pall of smoke hangs over much of the region. Lights flash from bombs bursting on Iraqi ground positions and from the red and green tracers of Iraqi anti-aircraft fire. For soldiers in the front line, the ground occasionally trembles from the impact of allied bombing.

"We're glad we're not on the receiving end," said a young Marine. "Every morning when you wake up its boom, boom, boom."

Allies face fallout from Baghdad blast

By David White, Defence Correspondent

NEWS OF the carnage in a bombed Baghdad air raid shelter could hardly have come at a worse time for the US and its allies, in terms of its impact on Arab and world opinion.

It follows closely on this week's signals from Washington that the four-week-old bombing campaign will be prolonged before any attempt is made to use ground troops to oust Iraqi forces from Kuwait. At the same time, allied claims that raids are restricted to targets of military significance are being increasingly called into question.

The Iraqi authorities, while highlighting what they claim as evidence of attacks on civilian buildings, had until recently played down the number of casualties. It was not until this week that they started to speak in terms of thousands – 6,000 to 7,000 – rather than hundreds.

Previous Iraqi evidence of civilians being killed or wounded has been difficult to verify. An attack on a bridge at Al-Nisiriya in southern Iraq last week was said to have killed 47 civilians and injured 102, the largest toll in a single incident so far in the war. But a British cameraman who filmed the casualties in hospital said later that a number were soldiers.

Information on Iraqi military casualties has been lacking, with no credible figures from either side to match the extent of allied attacks on installations and equipment.

The US and its allies have emphasised from the outset of their offensive that attacks are aimed only at strategic and military targets. This definition embraces civilian facilities such as power stations, which the army relies on to keep its command and control operating.

Allied commanders have claimed that their policy has been followed with unprecedented rigour, pointing out instances in which whole groups of aircraft have returned to base without dropping their armaments as they could not identify their assigned military targets.

However, they have admitted it is impossible to avoid civilian casualties.

US experts recognise that precision weapons such as laser-guided bombs do not always hit their targets, as their guidance systems can malfunction or be disrupted – for instance by cloud. The US raid against Libya in 1986 showed up the possible failings of attempted precision attacks.

But the US Central Command made clear that the reinforced structure in Baghdad was "struck as designated" and that in purely military terms "nothing went wrong."

The signs point to an intelligence failure over the facility's use by civilians. Brigadier General Richard Neal, the US briefer, said the structure was built as an air-raid shelter in 1985 but had been upgraded for use as a military command and control centre, and the roof had recently been camouflaged.

"We have no explanation at this time, really, why there were civilians in this bunker," he said.

Group Captain Niall Irving, a British military spokesman in the Gulf, said if the report was true it was a "tragedy" and "obviously something did go wrong".

The allies regarded key military headquarters in civilian areas as "bona fide" targets. But smaller military units using suburbs as cover would not be attacked, he said.

Bodies lie under blankets in a Baghdad street yesterday outside the underground shelter in which they died during an air raid

Survivors tell of shelter nightmare

By Salah Nasrawi of the Associated Press in Baghdad

JUST eight people were pulled alive from the rubble of the Baghdad shelter hit by missiles early yesterday, according to rescue workers.

Witnesses said the entrance to the shelter in the Al-Amerieh district took direct hits from at least two missiles fired by allied warplanes at 4am.

Reporters who were taken by Information Ministry officials to the scene several hours later counted more than 40 charred bodies laid out on the ground that were to be taken by ambulances to a morgue.

Dozens of other mutilated bodies had been dug out before the reporters arrived, rescuers said. The shelter was still ablaze about six hours after the attack and firemen were struggling to extinguish the flames.

A civil defence official said scores of people remained buried in the rubble, but that there was no hope that any of them was still alive.

"There are no survivors there any more. The fire is melting the metal. There's no way any human being could have survived until now," an official said.

Health Minister Abdel-

> 'I turned to try and *touch* my mother who was next to me but grabbed nothing but a piece of flesh'

Salam Mohammed Saeed told reporters that there were 1,000 people inside the shelter, one of five such massive fortications built in Baghdad during the 1980-88 war against Iran.

But rescuers said the survivors and other residents of Al-Amerieh spoke of only 400-500 people inside the shelter.

The eight survivors, all of them suffering severe burns, were taken to the nearby Yarmuk Hospital.

One of the injured, Omar Adnan, said he was the only survivor from his family of six. His three younger sisters, mother and father, all perished.

In a faint voice, Adnan, 17, said: "I was sleeping and suddenly I felt heat and the blanket was burning. Moments later, I felt I was suffocating.

"I turned to try and touch my mother who was next to me but grabbed nothing but a piece of flesh," he said.

The Iraqi authorities said there were no military installations anywhere near the Al-Amerieh district, a middle-class residential neighbourhood. Several large arrows with the word "shelter" written on them in Arabic and English pointed to the large concrete facility.

Bombers hit Iraqi equipment

By Victor Mallet in Riyadh

ALLIED bombers continued to whittle away Iraqi military equipment yesterday and spokesmen – in between fielding questions about the killing of civilians in Baghdad – announced attacks on Scud launchers, artillery, aircraft, hardened aircraft shelters and factories in Kuwait and Iraq.

British jets attacked a plant making liquid fuel for Scud missiles and in other raids apparently destroyed five Brazilian-supplied Astros multiple rocket launchers, which have a range of up to 60km.

US pilots reported destroying four Iraqi transport aircraft in Kuwait and northern Iraq, and a Super Frelon helicopter capable of carrying two Exocet missiles at Fao in southern Iraq. A Saudi F-5 and its pilot were lost on a bombing mission.

Allied military commanders played down the effectiveness of smoke caused by 40 to 50 oil fires. Most of them, including five oil wells in the Wafra area of Kuwait set alight this week, appear to have been started by the Iraqis to hide their forces from air attack.

One military officer described the Iraqis as "very resourceful" and said they had patched up their communications as best they could and sandbagged their tanks when they expected an attack. But Grp Capt Niall Irving, the British spokesman, said clear weather had enabled allied pilots to be flexible and hit military targets even if they moved from their original positions during the night.

Iraqi deserters continued to trickle across the front line. According to the alliance, they speak of a patchy supply system for the Iraqi army which favours veteran divisions rather than the newcomers which have generally been sent to the front.

Clean-up of oil slick may cost $1bn

By Deborah Hargreaves

CLEANING up the Gulf oil slick – the world's worst – could cost $1bn (£500m), according to Saudi officials.

They warn, however, that the price of protecting the fragile environment in the area over the longer term could amount to considerably more than this.

This could test the resources of the kingdom, which is already believed to be raising a $3.5bn loan from international banks to fund the war effort. Western diplomats have suggested the kingdom's inability so far to deal with the slick highlights its financial plight.

Western nations have sent tonnes of equipment and experts to assist the clean-up, but most expect to be paid for their efforts.

The spill, which contains more than 11m barrels of oil, is moving down Saudi Arabia's east coast and could reach the industrial town of Jubail in two to three days.

An official at the Meterology and Environmental Protection Administration (Mepa) in Dhahran said yesterday the slick had passed Ras as Zawr, about 40 miles from Jubail.

The official said the slick's progress could be slowed by winds blowing it on-shore at Abu Ali island, where the oil would do considerable environmental damage but would buy some time for Jubail.

Prince Abdullah bin Faisal bin Turki, chairman of the Royal Commission for Jubail, has said the slick has broken up into roughly five sections.

The prince said it was impossible to assess the full extent of the damage as the oil could circulate in the waters of the Gulf for years. "There is quite a bit of room for more pain," he said. "This is a terrible thing, ecologically speaking."

Jubail houses the world's largest desalination plant, which produces about two-thirds of the drinking water for Riyadh, the Saudi capital. The port also contains an oil refinery which produces 250,000 barrels a day and a petrochemicals complex.

The Saudi prince said the plants were protected with booms and that measures had been taken to avoid damage to these.

Mepa said ocean-going booms that could withstand heavy seas were put in place at Jubail yesterday.

The town is expected to spend between $50m and $60m on environmental protection in coming weeks.

The United Nations is drawing up a large-scale ecological plan for a long-term clean-up of the Gulf.

US bank completes fund raising for $3.5bn Saudi Arabian sovereign loan

By Victor Mallet in Riyadh and Stephen Fidler in London

J.P. MORGAN, the New York bank, has successfully completed fund raising for a $3.5bn (£1.75bn) sovereign loan being arranged for Saudi Arabia, the first major borrowing by the kingdom in modern times.

The financing, a three-year loan, has been syndicated among a group of more than a dozen international banks, diplomats and bankers said yesterday. It will carry an interest margin of ½ percentage point above money market rates.

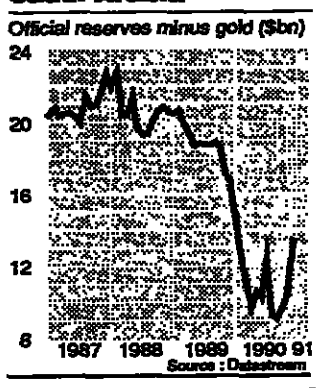
The loan agreement has still to be signed and the funds have not been drawn down.

The interest margin is said by bankers to carry a premium because of the Gulf war. Under internationally agreed capital guidelines banks do not have to set aside any capital for lending to the Saudi Arabian government.

The loan was characterised yesterday as a prudent move by the Saudi government in face of huge financial uncertainties brought about by the war and swings in oil prices and production. The funds will go into the country's general reserves.

Saudi Arabia

Official reserves minus gold ($bn)



Source: Datastream

Saudi Arabia's foreign exchange reserves have declined significantly in the last two years, largely because of weak oil prices.

It is assumed the borrower will be the Saudi Arabian Monetary Agency, the kingdom's central bank, or possibly the Finance Ministry. Mr Mohammed al-Sayari, the Sama governor, is said to have been the kingdom's chief negotiator over the past three weeks.

The government has not borrowed directly in recent times, although state-affiliated organisations such as the Public Investment Fund and the Saudi Arabian Basic Industries Corp, the petrochemicals company, have tapped international markets.

Saudi Arabia itself, wary of offending Islamic strictures on the payment and receipt of interest, is unlikely to say much about the loan in public. "This matter is very sensitive," said a Saudi official yesterday. "Nobody wants to talk about it."

Bankers said a number of banks were also sensitive about their participation in the transaction, fearing it could trigger Iraqi-sponsored terrorism.

They added the loan was apparently put together over a short period and was completed a few days ago.

The ease with which the fund-raising was achieved surprised some bankers; the fact that the Saudi government has no outstanding loans in its own name would have helped the fund raising, they said.

Figures published yesterday from the Bank for International Settlements, the Basle-based forum for central banks, showed a sharp $5.2bn drop in Saudi deposits with international banks in the third quarter, following Iraq's invasion of Kuwait. The deposits of the United Arab Emirates also dropped, by $3.4bn.

Saudi Arabia is said to have spent or committed about $48bn on the war. It is estimated to have gained only between $12bn and $15bn from the windfall of higher oil prices and increased production since August last year and had only $10bn of liquid reserves at the beginning of 1990.

The government has postponed its budget for the current year because of the uncertainties.

According to one banker with knowledge of the transaction, the Saudis believe the war will end soon but still feel that raising funds now is preferable to waiting until its conclusion.

Jordanian refugee bus hit by missiles

By Mark Nicholson in Amman

A GROUP of returning Jordanian refugees claimed yesterday that coalition aircraft had attacked and destroyed a civilian bus on the Iraq-Kuwait border, killing 30 Jordanians fleeing Kuwait.

Six Jordanian refugees, who said they had survived the raid, told reporters at the Ruweishid border post with Iraq that coalition aircraft had fired three missiles at the bus during an attack on Saturday, scoring one direct hit.

They said 30 of the 54 people aboard were killed. One refugee, Mr Chehadeh Ibrahim, said some passengers scrambled clear of the bus after a first missile landed in front of the vehicle.

"We started running out and then another missile hit the middle of the bus, and 30 people, including four little children, were burned to death," he said.

Throughout the bombing campaign, Jordanians have been deeply concerned about the levels of reported civilian casualties in Iraq .

The reports follow a recent spate of coalition attacks on the Amman-Baghdad highway in which up to 36 Jordanian oil tankers have been destroyed and nine drivers killed.

The government last night offered no comment on the latest reports of Jordanian casualties, however, officials said they were treating the reports seriously . One senior Jordanian official said: "People will be shocked, angry and will demonstrate against these attacks."

Thousands of Jordanians have already taken to the streets in pro-Iraqi – and usually vehemently anti-American – protests over the past three days.

Diplomats here suggest that, for the time being at least, there are unlikely to be disturbances serious enough to trouble Jordan's highly-efficient security service. So far, attacks on western targets in Jordan have been few and amateurish.

However, Jordanians at all levels of society have followed the bombing of their neighbour – for whom almost all profess deeply-felt support – with a combination of fury and incomprehension.

NEWS IN BRIEF

Syria 'ready to accept Israel's right to exist'

GERMAN foreign minister Hans-Dietrich Genscher said yesterday Syria was ready to recognise Israel's right to exist as part of a comprehensive Middle East peace order after the war, AP reports from Damascus.

Syria is aware that the right of self-determination for the Palestinians would mean that "Israel's right to exist is recognised and secured," Mr Genscher said after talks with Syrian foreign minister Farouk al-Sharaa.

Spain in Maghreb mission

Mr Francisco Fernandez Ordonez, the Spanish foreign minister, travelled to Mauritania yesterday on the first leg of a potentially tense five-nation tour that aims to assess growing anti-western sentiment in North Africa and salvage as much as possible of Spain's relationships with the Maghreb governments.

He will visit Morocco, Algeria, Tunisia and Libya before meeting fellow EC foreign ministers in Luxembourg next Tuesday. Mr Fernandez Ordonez is expected to encounter sharp protests over Spain's decision to allow US B-52s to raid Iraq from bases in Spain.

Turk 'spied for Iraq'

Turkey has charged a member of the banned right wing organisation, the Grey Wolves, with spying for Iraq, John Murray Brown reports from Ankara. Mr Hicabi Kocyigit, was said to have given military information to the Iraqis on February 1, ten days before ten Iraqi diplomats were expelled.

Cash boost for Egyptair

THE Egyptian government has agreed to inject $100m into the state-owned airline, Egyptair, which has suffered a 75 per cent drop in revenues as a result of the Gulf crisis, Max Rodenbeck writes from Cairo. Egyptair, which estimates its losses in Kuwait at $10m, claims that Iraq stopped repayment on $113m in debts before the invasion of Kuwait because of a hard currency shortage.

Germany is to give Egypt DM150m and up to 30 Fuchs chemical war "sniffer" vehicles.

Soviet Union to pursue peace dialogue

By Peter Riddell, US Editor, in Washington

THE Soviet Union said yesterday the talks between its envoy, Mr Yevgeny Primakov, and Iraq's President Saddam Hussein "gave cause for hope" and the dialogue would continue.

The US responded by pointing out there had been no sign from Baghdad of any willingness to withdraw from Kuwait.

A Soviet spokesman said Mr Tariq Aziz, the Iraqi foreign minister, would meet President Mikhail Gorbachev in Moscow on Monday.

After the Baghdad meeting Iraqi radio said Mr Saddam would co-operate with the Soviet Union in "finding a peaceful, political, equitable and honourable solution to the region's central issues, including the situation in the Gulf."

Mr Sergei Grigoriev, Mr Gorbachev's spokesman, said the purpose of the talks was to pursue Moscow's diplomatic initiative to find a peaceful solution, though he stressed that "the essence of the Soviet plan will never go beyond the limits of the United Nations Security Council resolution obliging Iraq to withdraw from Kuwait and restore the independence of Kuwait."

The White House commented that the deciding factor was what the Iraqi leader had to say about getting out of Kuwait and noted that the Iraqi radio statement made no mention of Kuwait.

The State Department said that Mr Saddam's remarks appeared to contain "the same old linkage" between the Gulf war and the Palestinian question which the US had repeatedly rejected.

While there is some wariness in Washington about what Moscow is up to, the official line is not to be critical in view of public Soviet backing for implementation of the 12 UN resolutions requiring full Iraqi withdrawal from Kuwait. The US has rejected suggestions of ceasefires or pauses in the fighting unless Iraq takes steps to withdraw from Kuwait.

Saddam Hussein: 'co-operating with Moscow'

Israeli rights group condemns curfew

By Hugh Carnegy in Jerusalem

AN Israeli human rights group yesterday sharply criticised a four-week-old curfew on the occupied West Bank and Gaza Strip, saying its effects threatened the "health, livelihood and welfare" of Palestinians.

The authorities say the measure, the longest general curfew since Israel captured the territories in 1967, is to prevent unrest among Palestinians, who mostly support Iraq. It appears to be backed by most Israelis who are angered by reports of Palestinians cheering Iraqi missile strikes on Tel Aviv and who fear attacks by individual Arabs entering Israel.

But a detailed critique issued by B'tselem, which monitors human rights in the occupied territories, said the extension of the curfew suggested it had gone beyond a preventative measure and was being used for collective punishment.

"The curfew cannot go on forever just because there is support among Palestinians for Saddam Hussein," said Ms Daphna Golan, one of the report's authors.

The army says it is gradually easing the curfew; residents of most towns, villages and refugee camps are allowed several hours relief during daylight hours at least once a week, and in places more regularly.

A small number of Palestinians have been allowed to return to work in Israel, where normally more than 100,000 earn their living.

But B'tselem said the curfew had paralysed economic activity in the territories.

It estimated total earnings losses from January 17 to February 10 at more than $130.5m (£66.9m). In the same period exports dropped 95 per cent and meat and fresh vegetable consumption fell 80 per cent and 70 per cent respectively. Local agriculture, which accounts for 35 per cent of GDP in the West Bank and Gaza, had been badly damaged.

The report said 15 Palestinians were killed by army gunfire in January, including five under 16. During the curfew 3,650 people had been arrested.

The group also said authorities had so far distributed only 50,000 gas masks – to protect against a possible Iraqi chemical attack – to the 1.7m-strong Palestinian population.

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Witness refuses to testify in Mandela trial

By Patti Waldmeir in Johannesburg

A KEY witness in the kidnapping and assault trial of Mrs Winnie Mandela, wife of Mr Nelson Mandela, yesterday refused to testify, saying he feared for his life if he gave evidence.

In a moving address to the court, Mr Kenneth Kgase – one of the alleged victims of the 1988 kidnapping and assault with which Mrs Mandela and others are charged – said he felt a strong obligation to testify. "But I've got to make a choice between my obligation and my life," he said. "I really want my life, I like my life."

"I'm very very scared," he added, citing the apparent kidnapping on Sunday of another key prosecution witness.

Mr Kgase was compelled to give evidence in a related trial last year, in which a close associate of Mrs Mandela was found guilty of murder. Mr Kgase said he believed his life was in danger then as well, citing "new developments in the political situation in the country" for creating that fear. It appeared that he was referring to the unbanning of the African National Congress (ANC), of which Mrs Mandela is a senior office-bearer; Mr Kgase implied that he feared being seen as disloyal to the newly-powerful ANC.

The trial continues today, though the prosecutor has said he may seek to postpone it until May or June to enable police to find the kidnapped witness.

Peter Kipeen (left) and Jonah Magiroi after being charged in Nairobi yesterday with the 1988 murder of Julie Ward, a British tourist, in the Masai Mara Game Reserve. Both men had been park rangers in the large reserve in south-west Kenya.

Price index up 2.7% in last quarter

By Kevin Brown

AUSTRALIA'S Consumer Price Index jumped 2.7 per cent in the December quarter, the biggest quarterly increase for four years, pushing the annual rate up from 6 per cent to 6.9 per cent, the government said yesterday.

The quarterly increase was significantly higher than market estimates of between 1.6 per cent and 2.3 per cent, largely because of a 20.8 per cent increase in petrol prices as a result of the Gulf War.

The goverament said there were several other special factors, including changes in state and local government charges and an accelerated increase in health insurance costs.

Mr Paul Keating, the federal treasurer (finance minister) said Australia was still on course to achieve his target of 6 per cent annual inflation for the 12 months to June.

Most economists said the annual rate would probably drop to around 5 per cent later this year, unless oil prices were pushed up by a protracted war.

"We still think the government will better the budget forecast, and we believe inflation will be around 5 per cent over the year to the December quarter of 1991," said Mr Stephen Miller, senior economist at Bankers Trust Australia.

Keating backs sale of ailing South Australian bank

By Kevin Brown in Sydney

THE South Australian state government should sell the State Bank of South Australia, which declared potential losses of A$1bn (£392m) on Sunday, Mr Paul Keating, the federal Treasurer, said yesterday.

He said the state should have little difficulty finding a buyer if the price was at the right level. The state should sell other assets to cover the loss if it was unwilling to sell the bank, Mr Keating added.

Analysts say the bank would probably be worth up to A$1bn if key institutions were prepared to pay a premium to expand their market share in South Australia.

Mr John Bannon, the South Australian premier, has said the state wants to retain ownership of the bank and it is not for sale, in spite of the state's need to finance a A$970m rescue package.

However, Mr Bannon has already been forced to appoint a Royal Commission to investigate the loss. Mr Keating's comments will increase pressure on him to fund the shortfall by selling the bank rather than increasing taxes.

Westpac Banking Corp and National Australia Bank, two of Australia's four leading trading banks, are believed to be interested in acquiring the bank, and the State Bank of New South Wales has shown interest in its retail network.

Paul Keating: finding buyer will not be difficult

The Commonwealth Bank, owned by the federal government, is unlikely to be interested because of its recent A$1.6bn purchase of the State Bank of Victoria, which was sold by the state after incurring losses of about A$1.6bn.

National Australia Bank, the fourth largest trading bank, would probably not be allowed to acquire the State Bank of South Australia as it already has a strong branch network in the state.

● Victoria's Labor government is expected to reintroduce legislation in the state parliament shortly to provide for the sale of the State Insurance Office (SIO) to the private sector.

A bill preparing the ground for the sale was approved by the lower house of parliament last year but was defeated in the Senate, which is controlled by the conservative opposition.

Mr Ian Gaudion, SIO chairman, said yesterday that a memorandum on the proposed sale would probably be published early next month, and a sale could take place by May.

The SIO, with net assets of A$280m and annual premium income of A$200m, is likely to be worth at least A$300m. The sale price could be higher if a competitor is prepared to pay a premium for expansion in the fragmented Victorian insurance market.

The SIO has about 5 per cent of the motor insurance market in the state, and 20 per cent of the general insurance market. The New South Wales Government Insurance Office (GIO) has shown an interest in acquiring the SIO, but is thought to be waiting for legislation to pass through the state parliament before seeking detailed discussions.

Tourism in Kenya suffers downturn

By Julian Ozanne in Nairobi

KENYA, the leading tourist destination in black Africa, is set to lose millions of dollars as tourists cancel their holiday plans, fearing threats of terrorism linked to the Gulf war.

Tourism has slumped by up to 60 per cent, threatening Kenya's fragile economy already troubled by higher oil prices, low world prices for coffee, rising inflation and diminishing foreign aid.

The combined effect of these problems will certainly lower economic growth, which was targeted at 5 per cent for fiscal year 1990-91. Some economists believe the growth in gross domestic product may be below 4 per cent this year, hardly keeping pace with Kenya's population expansion.

Other big tourist destinations in black Africa, including the Seychelles, Zimbabwe, Botswana and Mauritius, are suffering a similar downturn in their vital tourist industries.

The Kenya Associations of Hotelkeepers and Caterers say there has been a 50 per cent decline in bookings during this year's peak season (January to March). As much as K£200m ($166m) and 2,400 jobs are at risk this year. The US market, which accounted for 85,000 visitors in 1989, has "basically dried up", said one leading hotel manager.

A dramatic decline in US businesses has particularly affected the high-income wild life safari market. One safari lodge recorded a 73 per cent drop in visitors last month.

Airlines have also been hit. Pan American has suspended its three flights to Nairobi from Frankfurt until June 15 and Kenya Airways has cancelled two flights a week to London.

Kenyan Ministry of Finance officials remain cautious about the impact of the tourist slump on Kenya's economy. But they are clearly worried about the loss to the Treasury from an industry which brought in K£432m in 1989 in foreign exchange from 740,000 visitors.

They believe a speedy end to the Gulf war will resuscitate the tourist industry's flagging fortunes. In the short term there are hopes of Gulf-based military personnel visiting Kenya for rest and recuperation.

The government has also announced that it will soon reform visa regulations which currently bar the entry of South African tourists.

South African Airways already operate one scheduled flight a week from Johannesburg to Nairobi. Plans for Kenya Airways to fly to South Africa were scuttled last year at the urging of Mr Nelson Mandela, deputy president of the African National Congress.

● Mr Ajuma Jaramogi Oginga Odinga, one of Kenya's most powerful opposition politicians, yesterday put his name on a manifesto of the political party he announced last November.

The formation of the National Democratic party, which Mr Odinga heads as interim chairman until the release of political detainees arrested last year, is illegal under Kenya's one party constitution.

Indian premier to visit Nepal

Mr Chandra Shekhar, India's prime minister, yesterday began a three-day visit to Nepal, one day after it was announced in Kathmandu that the first free elections in the Himalayan kingdom will be held on May 12, K.K. Sharma writes from New Delhi.

The first official visit to Nepal by an Indian premier since 1977 is expected to help the Nepali Congress party of Mr K.P. Bhattarai, Nepal's prime minister, in the polls.

Hong Kong hotel damaged by bomb

A BOMB exploded in the Holiday Inn Golden Mile hotel in Kowloon yesterday, injuring three hotel staff, one seriously, Angus Foster writes from Hong Kong. Police said the bombing was thought to be the work of criminals rather than terrorists. The bomb could further dent the colony's fragile tourist industry. The Gulf war has been blamed for a 10 per cent fall in hotel occupancies last month and cancellations are continuing.

Japan's trade surplus increases three-fold

By Stefan Wagstyl in Tokyo

JAPAN'S trade surplus increased three-fold last month, compared with January 1990, because of a surge in exports of consumer electronics to eastern Europe and to south east Asia.

According to figures published by the Ministry of Finance yesterday, the surplus rose from $319m to $986m. Exports rose 16.7 per cent to $21.8bn while imports were 13.3 per cent higher at $20.8bn.

The surplus tends to be much lower in January than in other months, because the New Year holidays in Japan usually depress exports.

Exports to the US rose 7.2 per cent, but those to the European Community, including goods re-exported to eastern Europe, jumped by 19 per cent and to newly-industrialised economies (NIEs) in Asia by 36.3 per cent. The surplus with the US rose to $2.41bn, that with the EC to $1.62bn and with NIEs to $2.27bn.

Meanwhile, the deficit with the Middle East widened sharply because of a slump in exports and an increase in imports, caused by the sharp rise in the cost of oil fuelled by the Gulf crisis. Exports fell 28.7 per cent to $392m and imports rose 47.1 per cent to $3.28bn.

Ian Rodger adds from Tokyo: Machinery orders in Japan slipped to Y1,960bn (£7.66bn) in December, 7.5 per cent lower than in January on a seasonally adjusted basis, and the government's Economic Planning Agency said that growth in orders was now slowing after four years of rapid growth.

Public sector orders were up 24.2 per cent to Y275.3bn but private sector orders fell 13 per cent to Y1,140bn.

Excluding orders for ships and by power utilities, private sector machinery orders plunged 27.9 per cent, according to the EPA, but a growth trend was still expected in the first quarter as a whole.

Aid critical to eastern Europe as loans dry up

By Stephen Fidler, Euromarkets Correspondent

THE reluctance of western banks to lend to the countries of central and eastern Europe means that official aid is critical to the success of the economic reform in the region, the Bank for International Settlements said yesterday.

In a quarterly review of international banking and financial market developments, the Basle-based institution which speaks for central banks said: "The prospects for the private provision of financial credit from abroad, even in modest amounts, are not at present very bright."

This emphasised the importance of official aid, even though such aid would be modest. "Nevertheless official funds and guarantees may help to overcome the worst social hardships, act as a catalyst in the longer-term reform process itself and underpin the flow of private investment capital to these countries," the report said.

Underlining the increasing concern of international banks about lending to the region, loans dropped by 7 per cent, or \$6.8bn in the first nine months of last year, slightly more than the increase during the whole of 1989. The decline was broadly based, with the exception of Poland whose debt increased as its arrears built up. In the same period, these countries' deposits with western banks dropped by \$3bn. "The contraction in the Soviet Union's deposits alone amounted to an unprecedented \$7.2bn," it said.

Banks' worries about the Soviet Union were heightened by the emergence of arrears on short-term trade credits, due to the continued administrative allocation of foreign exchange coupled with the decentralisation of borrowing, the BIS said.

Banks' outstanding loans with the Soviet Union, Bulgaria, Hungary, Czechoslovakia, Poland, Romania and Yugoslavia stood at \$86bn at the end of last September. German banks accounted for 20 per cent of this and Japanese banks for 18 per cent.

The main responsibility for reform lay with the countries themselves, the Bank said. But supporting its contention that those undertaking such reform should benefit from western aid, it added: "The successful integration of the central and eastern European countries into the world economy and the associated improvement in living standards are surely not only in the interests of these countries themselves but of the world as a whole."

ABB and Siemens to take over German companies

By Leslie Colitt in Berlin

ASEA Brown Boveri (ABB), the Swedish-controlled power engineering group, yesterday said it intended to take over Automatisierungsanlagen Cottbus (AAC), a leading German heavy electricals company which employs 2,000 people.

At the same time, Treuhand, the state holding company for industry of the former east Germany, confirmed that Siemens would take control in April of Anlagenbau Teltow, an electrical components company outside Berlin, which employs 1,200 people.

No price was given for either purchase. ABB and Siemens, both rivals, are the largest investors in the electrical industry in east Germany.

This is ABB's second big foray into eastern Germany in three months. Last year, it bought Energiebau Dresden, another large German energy concern and is negotiating a takeover of Bergmann-Borsig, a large Berlin engineering company, and other former state enterprises.

The Cottbus company had a large market in the Soviet Union, supplying electricals for mining equipment, but orders had plummeted. ABB said it would invest DM40m (\$27.5m) in AAC by 1995 but it would also reduce staff by 500.

The contracts coincide with a staunch defence by a Treuhand spokesman to growing criticism of excessive delays and incompetence on its part in privatising former state companies.

Treuhand had too few people to conduct negotiations with potential Western investors and many of its senior staff were underpaid he said.

Meanwhile, nearly 1,000 employees of Interflug, the former east German state airline, demonstrated noisily outside Treuhand's Berlin headquarters against its decision to liquidate Interflug after a buyer could not be found.

A bid by Lufthansa to take a share in the company last year was blocked by the Cartel Office while British Airways, which had shown interest, backed out.

Pilots, navigators and stewardesses carried signs accusing Treuhand of aiming for 55 per cent unemployment in east Germany and noting that 2,900 more unemployed (at Interflug) would now join the jobless.

Earlier, Lufthansa hired more than 700 technical personnel from Interflug but could not have wished to take over the east German carrier when the German airline was facing losses because of a sharp fall in passengers.

Businessmen startled by Pavlov fantasy

By Quentin Peel

THE foreign business community yesterday dismissed as pure political propaganda the startling claim by Mr Valentin Pavlov, the new Soviet prime minister, that his country was facing a "financial war" launched by unnamed western banks.

Yet at the same time his programme of economic reform, although far less radical than market economists would like, was greeted with relief as a clear statement of the Soviet leadership's new priorities.

In an interview on Tuesday, Mr Pavlov accused unnamed western bankers of trying to destroy the Soviet economy and overthrow its government.

Immediate reaction to Mr Pavlov's assault on foreign investors, and foreign banks, was either petrified – a flat "no comment" from many bank representatives – to amazed. "Is this man on drugs?" one bemused banker asked.

There was also anger at his relapse into xenophobia. His statement that banks in Austria, Switzerland and Canada were involved in the attempt to destabilise the Soviet economy – by flooding it with hoarded roubles – brought a sharp response.

"You cannot talk about Austrian banks without including Creditanstalt, which is the biggest," said Ms Elizabeth Ezrine, the bank's representative in Moscow. "To make this suggestion about Austrian banks is preposterous.

"We have a huge commitment to the Soviet Union. We have a hard currency share in the first joint venture bank. Every eight weeks we host a seminar in Vienna to which we invite Soviet bankers. At one stage, Creditanstalt was financing more joint ventures than any other Western bank."

Mr Pertti Hacklin, who represents Union Bank of Switzerland, said he had "no idea and no comment" on why Mr Pavlov made the claim. "It is very strange," he said.

Yet there is a willingness by bankers and businessmen to recognise that the Soviet economy, precisely because of its bureaucracy, inefficiency, rigid exchange controls and huge shortages, has always attracted a fair number of dubious and dishonest Western operators.

They are matched in kind by corrupt Soviet counterparts, as Mr Pavlov said.

"What he failed to say was why they attract them," said one American businessman. "It is no good simply saying it must stop. The blue chip companies have always been slow to come because doing business here is often not profitable unless it is dishonest."

Another critique of the Pavlov interview was that it was directed at a domestic audience, without any apparent thought for the international reaction.

On the other hand, the fact that he spelt out some idea of government policy, after a year of drift and uncertainty, was welcomed. "The most important thing was his switch of emphasis from light industry back to heavy," said one Western analyst.

"There is a real problem. Key sectors like energy, communications and the railways are collapsing. Putting money back into the basic industry is a crucial change."

■ A cultural agreement, hailed by some as a model for central and republican leaders struggling to agree on a union treaty, was yesterday agreed by representatives from 11 Soviet republics yesterday, writes Leyla Boulton in Moscow.

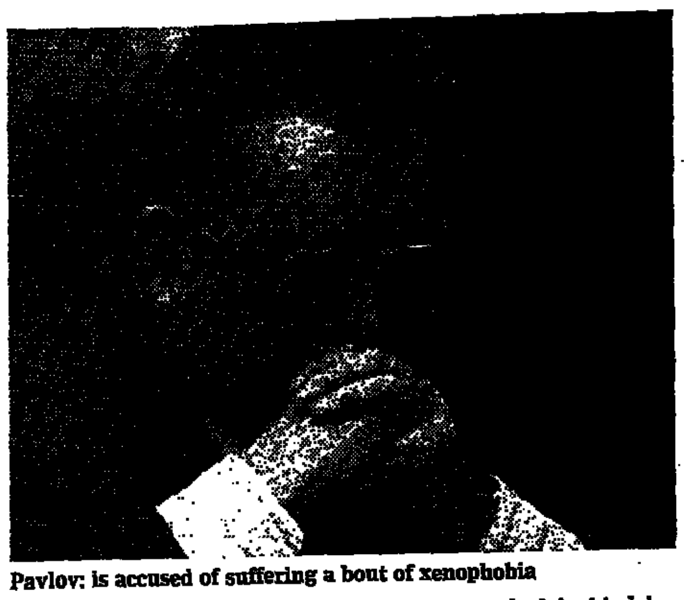
But on the political level, delegates from only eight of the 15 union republics yesterday attended union treaty negotiations which were being held in Moscow.

The talks – which are being boycotted by Azerbaijan, Armenia, Georgia, Moldova and the three Baltic republics – yesterday broke up into working groups.

Discussions of the draft treaty have focussed on key problems such as dividing up property, the interaction of republican and union laws, taxation, ethnic minorities, as well as defence and state security.

Mr Nikolai Gubenko, the Soviet culture minister, said he hoped the newly-formed council of culture ministers would "give an impulse to other government structures."

Mr Gubenko said the meeting had eschewed the centre's old habit of dictating policy to the republics.



Pavlov: is accused of suffering a bout of xenophobia

Bulgaria's disgraced former communist leader, Mr Todor Zhivkov, who lost power in November, 1989, making his first appearance in a Sofia court yesterday as a witness against one of his former ministers. Mr Zhivkov goes on trial for misrule in 10 days time

European car makers seek to heal split

By William Dawkins in Paris

WEST Europe's top car producers are to meet in Munich next week to try to heal the rift which has prevented them presenting a common front to the European Commission for the past three months.

Eleven manufacturers have invited Mr Jacques Calvet, chairman of Peugeot, the French car maker at the heart of the split, to the meeting on February 20. They will attempt to include him in a new body to replace the troubled Committee of European Community Automobile Makers (CCMC).

However, Mr Calvet, the European car industry's toughest opponent of Japanese imports into the Community, showed no signs yesterday of weakening on the differences which caused the break-up.

He has been the sole member of the CCMC since his 11 colleagues walked out last November.

They left after Mr Calvet refused to accept a shift from unanimous to majority voting, a move which also reflected differences over how far the EC should reduce barriers to Japanese car sales.

Peugeot believes that some of Mr Calvet's European colleagues are keen to find a way of bringing him into the new organisation, including Mr Eberhard von Kuenheim, chairman of BMW, who has been asked to prepare statutes for a new grouping which would also embrace the CLCA automobile trade federation.

The Peugeot chief said no group chairman should have the right to take part in a majority vote on matters which could jeopardise the life of his company.

Neither could he accept proposals to open the organisation to Volvo of Sweden, which last year exchanged equity stakes with Renault, the French state-owned car maker.

US plans more aid for Baltics

The US is preparing further assistance for the Baltic republics of Lithuania, Latvia and Estonia, Peter Riddell writes from Washington.

This follows visits by a senior US diplomat to the capitals of the three republics, which are seeking to establish their independence from Moscow. The new measures include the opening of US information offices in the republics and technical assistance to support economic reform programmes. These would be in addition to the medical supplies pledged last week by the White House. The aim is to demonstrate political support for the independence movements in the republics while not alienating the Soviet leadership in Moscow.

Poland stands firm on troop withdrawal

By Christopher Bobinski in Warsaw

THE Soviet troops which are being withdrawn from Germany will not be allowed pass through Poland until a date has been agreed for the withdrawal of the 50,000 Soviet soldiers stationed in Poland, according to Mr Grzegorz Kostrzewa Zorbas, Poland's chief negotiator with Moscow on Soviet troop withdrawals.

Mr Kostrzewa, who made his remarks after the end of a fourth round of talks between Polish and Soviet negotiators, said the Polish authorities want the Soviet troops to be withdrawn by the end of this year.

However, Soviet negotiators told President Lech Walesa that withdrawals would end in mid-1994.

Closing this considerable gap could well be Mr Walesa's first major foreign policy challenge and one in which he will have to deal with Mr Mikhail Gorbachev, the Soviet president.

Before his election late last year as president, Mr Walesa adopted a tough line on this emotive issue. But during this week's with Mr Lev Klepacky, the Soviet charge d'affaires, it is reported the president adopted a more conciliatory approach.

The Soviet negotiators position is that that they need a military presence in Poland during the next three years while the remaining 338,000 troops are in the process of being withdrawn from Germany.

But Mr Kostrzewa said the issue was "a political one not a military one."

He also dismissed Soviet arguments that the withdrawal from Poland must be delayed because of housing shortages at home.

● The Polish authorities are expected to raise the issue of Soviet troop withdrawals from Poland during a meeting of leaders from central Europe, writes our foreign staff.

The presidents of Poland, Hungary and Czechoslovakia are due to meet in the western Hungarian town of Visegrad tomorrow.

Czechoslovak factions in row

By Leslie Colitt in Prague

CIVIC FORUM, the movement which overthrew the Communist regime in December 1989, and which has dominated political life in Czechoslovakia since then, is on the threshold of a radical transformation.

Mr Vaclav Klaus, the free marketeering finance minister who is chairman of Civic Forum (CF), has once again polarised opinion by planning to convert the Club of the Democratic Right (CDR), the group within CF which supports him, into a fully fledged political party next month. However, the move is strongly opposed in the government coalition.

Senior officials resent what they see as an attempt to usurp the movement founded by President Vaclav Havel.

"The good name of Civic Forum must be preserved and no one allowed to steal it," said Mr Jiri Dienstbier, the foreign minister.

Mr Dienstbier, who is head of the Liberal Club in CF which favours a less painful approach to economic reforms, added that a genuine compromise should be reached between the factions in CF, or it should be preserved as a "moral institution" led by President Havel.

A meeting last weekend between President Havel and representatives of the two main groups in Civic Forum produced yet another murky compromise.

CF will be split into its two main factions. Neither will be able to call itself CF; yet in what is seen as a remarkable balancing act, both are to be joined in a coalition.

Mr Havel said he did not think it necessary at present to assume the formal leadership of the movement.

Yet there is a growing consensus, even among opponents of Mr Klaus, that it is time that the factions operating under the umbrella of CF, form political parties well before elections which are due early next year.

There remains the delicate question about Mr Klaus's political ambitions, in particular the post of prime minister. The visceral dislike which he generates among most of his fellow cabinet ministers contrasts with his popularity among many ordinary Czechoslovaks who appreciate his bluntness.

Mr Havel has had a highly strained relationship with the caustic Mr Klaus from the start. Mr Marian Calfa, the prime minister, said it was far from clear whether Mr Klaus headed the largest political grouping in CF. He said it appeared certain that some "populist" politicians would undermine attempts to reach a consensus between the parties.

Soviets to 'place DM9bn in east German orders'

By David Goodhart in Bonn

THE Soviet Union will, in the next two weeks, place orders worth DM9bn (£3.1bn) with its former trading partners in east Germany, according to Mr Jürgen Möllemann, the German economics minister.

Mr Möllemann is in the Soviet Union seeking to prevent a collapse of east Germany's business with the Soviets, which used to account for 40 per cent of foreign trade. Some sectors, such as shipbuilding and railway carriage manufacture, are heavily dependent on Soviet orders.

The German government is providing generous export credit terms to east German companies to help them stay competitive in international markets.

Talks resume in Yugoslavia

YUGOSLAV leaders yesterday resumed talks on the country's future, writes Laura Silber in Belgrade.

The move comes against a background of increasing concern among western countries that the authorities may use violence to defuse the country's crisis and fresh warnings by the presidents of the Croatian and Slovenian republics that they would secede by June if no agreement was reached.

Yesterday Mr Ante Markovic, the prime minister, as well as the presidents of the six republics attempted to revive negotiations. Talks last week ended in disarray after Mr Milan Kucan, Slovenia's president, walked out and leaders from Croatia refused to attend.

Mr Kucan and Mr Franjo Tudjman, the Croatian president, said on Tuesday that the two republics would seek international mediation and secession if the Yugoslav federation was not transformed into a loose organisation of independent states.

"...the Conference on Security and Cooperation in Europe (CSCE) and the United Nations would be asked to arbitrate to guarantee the democratic and peaceful resolution of Yugoslavia's crisis," they said in a joint statement.

The statement coincides with warnings to the Yugoslav authorities by Mr Helmut Kohl, the German chancellor, the US and the European Community against using violence as a means of coping with the crisis which is exacerbated by ethnic tensions and rivalries between the six republics.

In a letter sent to Mr Markovic, which was published yesterday, Mr Kohl stated: "conflicts in Yugoslavia endanger peace not only within your country but threaten peace and stability in a region important for all of Europe."

The country's top leadership will hold what is termed a "decisive meeting" in Sarajevo later this month.

Western concern may strengthen Mr Markovic's position as he tries to gain approval from the republics for his economic programme which he has said would guarantee the functioning of the federation until a consensus is reached about the country's future.

Mr Markovic is seeking approval for a four-point programme which includes agreement on the federal budget, support for rehabilitating the banks, financial contributions to the undeveloped southern regions, and social programmes aimed at creating conditions in which currency markets can function and monetary policy implemented.

Spain lowers lending rate

THE Bank of Spain yesterday lowered its base lending rate by 20 basis points to 14.5 per cent in an apparent response to the upward pressure on the peseta which is within 70 per cent of its maximum divergence rate in the European Exchange Rate Mechanism (ERM), writes Tom Burns in Madrid.

The peseta has been especially robust following the removal of a 25 per cent withholding tax on bonds at the end of last year but the move was also seen by analysts as a signal that the government is increasingly concerned over the all-round slowdown of the domestic economy.

Mr Carlos Solchaga, the economy and treasury minister, expressed concern earlier this week over sharply reduced investment.

Alitalia plans to cut 2,500 jobs

By John Wyles in Rome

ALITALIA, Italy's national airline, has joined the growing queue of travel-related businesses seeking government aid to cope with the effects of recession and the Gulf war.

The company has drawn up emergency plans to cut 2,500 jobs after a 50 per cent drop this year in its passenger business.

The airline and its parent company, Iri, is looking to the government to provide the means for laying off surplus employees, although ministers are refusing to provide operating aids.

Alitalia has calculated it could lose a record L500bn (£229m) this year.

The absence of general unemployment pay in Italy means a special decree would be needed for the airline's redundant workers to qualify for assistance from the Cassa Integrazione Guadagni, the state scheme which pays up to 80 per cent of an unemployed person's salary.

An alternative being studied by Mr Carlo Bernini, transport minister, is a special early retirement scheme.

In common with most other large airlines, Alitalia has been badly hit by the public's reluctance to travel since the Gulf war started.

It has cut carrying capacity since January by 15.7 per cent and has required all employees to take holiday owed to them. The airline has also transferred its 620 catering department employees to the company which runs Rome airport, in which it holds a 51 per cent stake.

This moves are designed to save between L7bn and L10bn in a full year. The Alitalia group employs 30,300 people.

In the middle of last year it was confidently predicting a reversal of recent losses. It posted a deficit of L33bn in the first half of 1990, against a L162bn loss in the same period of 1989.

However, it has since estimated that the Gulf crisis has cost L150bn in higher fuel charges and lost traffic, which will bear heavily on its full 1990 results.

Italian airport operators are seeking a variety of tax concessions to help cope with revenues lost as a result of falling passenger traffic.

The nation's hotel sector is also declaring itself to be in crisis and worthy of government aid because of a sharp fall in tourist traffic.

■ KLM Royal Dutch Airlines is offering reductions of between 15 per cent and 40 per cent on economy-class fares from Amsterdam to the airline's 11 North American destinations, writes Ronald van de Krol in Amsterdam.

Ticket prices from North America to Amsterdam will be unchanged.

KLM, which last week announced big redundancies and the prospect of a steep loss in 1990-91, said the reduction was to encourage tourists to visit North America while the dollar was weak and to bolster passenger numbers.

European energy charter finalised

By David Buchan in Brussels

THE European Commission yesterday finalised its version of a pan-European energy charter under which, among other things, the Soviet Union could get advanced technology to boost its sagging oil and gas output in return for assuring supplies to Western Europe.

The draft charter should cover, in the Commission's view, access and exploitation of energy resources, investment rules, freer trade in energy products, safety norms, and research and development. Charter signatories should negotiate separate protocols to cover details of co-operation in specific energy sectors.

If it now gets approval from EC governments, it will be the basis on which the Community calls an international conference in the second half of this year. The the EC council of ministers will be under the presidency of the Netherlands, whose prime minister, Mr Ruud Lubbers, was the first to propose formalising pan-European co-operation last June.

The charter's success depends crucially on the attitude of the Soviet Union, which holds nearly 40 per cent of the world's gas reserves and around 6 per cent of its oil reserves. Mr Antonio Cardoso e Cunha, the EC energy commissioner, said yesterday that "nothing so far gives us the impression that the (Soviet) authorities are any less interested than they were some months ago".

The UK government, which strongly backed the Lubbers idea, has argued that a pan-European initiative would discourage the Soviet Union from ever joining a producer cartel like Opec.

But he conceded that "co-operation on this scale is dependent on political conditions", which have been somewhat frosted by recent Soviet strong-arm tactics in the Baltic republics. Despite the fact that the overwhelming part of Soviet oil/gas reserves are in the Russian republic, which has claimed sovereignty over them, Mr Cardoso said Brussels would continue its discussions with the central Soviet government for the time being.

Brussels believes that a pan-European marriage of convenience exists in the Soviet Union's need to raise falling output and perhaps to ensure western market share if oil prices drop further after the Gulf war; in eastern Europe's plight in having to pay far more, and in hard currency, for Soviet energy from the start of this year; and in western Europe's desire to diversify energy sources away from the volatile Middle East.

Mr Cardoso indicated the Commission did not interpret the term "European" too literally to exclude either Mediterranean countries with substantial energy links or the US, which would be involved in any case through American ownership of many EC energy companies.

Swedish rightwingers seize opposition vote

By John Burton in Stockholm

ALTHOUGH officially less then two weeks old, Sweden's populist right-wing protest group New Democracy could quickly become the country's third biggest political party, according to two new opinion polls.

New Democracy, jointly headed by Mr Bert Carlsson, an amusement park owner, and Count Ian Wachtmeister, who owns a metals group known as The Empire, received 11.7 per cent of voter support in an extensive poll published in the Swedish business magazine Veckans Affärer.

The ruling Social Democrats gained 31.9 per cent, while the conservative Moderates received 24.5 per cent. Another poll claimed that New Democracy had a hard-core following of 7 per cent, half that of the Social Democrats, and that it could potentially attract a third of all voters.

The initial response to New Democracy reflects a rightward shift in voter attitudes as the September 1991 elections approach.

The party supports big cuts in government bureaucracy, lower taxes, a tougher attitude against crime and restrictions on immigration.

But it appears to be taking most of its support from the middle-of-the-road opposition Centre and Liberal parties rather than the Social Democrats, who are suffering from falling popularity as the country slips into a recession.

The New Democracy phenomenon also reflects an unusual state of uncertainty and disenchantment among Swedish voters, who traditionally have followed stable voting patterns. A fifth of all voters are telling pollsters that they remain undecided about which party to support.

US bank groups seek changes in protection

By Peter Riddell, US Editor, in Washington

CHANGES in the US administration's policy of protecting the deposits of troubled banks which are "too big to fail" have been proposed by the five main banking groups, as part of their plan for bolstering the financially strained deposit insurance fund.

The Federal Deposit Insurance Corporation (FDIC) will this month consider how to shore up the bank insurance fund in the face of a wave of bank failures which is fast depleting its resources.

The industry's plan – endorsed by the the main trade associations, including the American Bankers Association and the Independent Bankers Association – proposes that the FDIC issue up to $10bn (£5bn) in bonds to be bought by American banks. This would be paid back by a special charge on all bank assets, which would, for the first time, cover foreign deposits.

Under the plan, the normal premium paid by banks of 19.5 cents for every $100 in domestic deposits would not rise.

The banking groups also propose a special $2bn fund to help the private sector finance mergers of ailing banks, with the money being borrowed from bank reserves held by the Federal Reserve.

However, Congressman Henry Gonzalez, chairman of the House banking committee, said the administration, not the banking industry, needed to produce a plan.

The FDIC has in practice protected deposits above the official federal insurance limit of $100,000 under the "too big to fail" policy because of fears of a wider collapse as uninsured deposits are being withdrawn from banks. The Treasury's banking reform plan last week sought to limit the protection of deposits over $100,000, but still left scope for their rescue in certain cases.

The banking groups "believe strongly that too-big-to-fail policies are significantly increasing the costs of the failure resolutions [takeovers] of the bank insurance fund, and we, understandably, are unwilling to continue to underwrite these unnecessary costs."

Instead, in those cases where all depositors must be protected, the groups suggest that the Treasury or the Fed, not the bank-financed FDIC, should bear the cost.

While there is some sympathy for this point in Congress, the administration will be reluctant to adopt any course which threatens a repetition of the highly unpopular taxpayer-financed rescue of the savings and loan industry.

Moreover, the $10bn figure is at the lower end of the range of estimates of what may be needed to boost the insurance fund. Mr William Seidman, the FDIC chairman, has said the amount may have to be nearer $15bn and has said an increase in bank premiums of four to five cents may be needed.

Cavallo acts to curb Argentine prices

By John Barham in Buenos Aires

MR Domingo Cavallo, Argentina's economy minister, has told Argentine business leaders that companies co-operating with the government would be rewarded with increased protection from underpriced imports, would have tax rebates processed rapidly, and benefit from lower utility prices.

Those deemed to be introducing "abusive" price increases would be punished with less protection from imports.

His carrot-and-stick policy comes as the country grapples with rising inflation. The rate in February is now predicted to be 30 per cent, following a 39 per cent devaluation of the austral, Argentina's currency, since the beginning of the year. Inflation had remained in single figures since October.

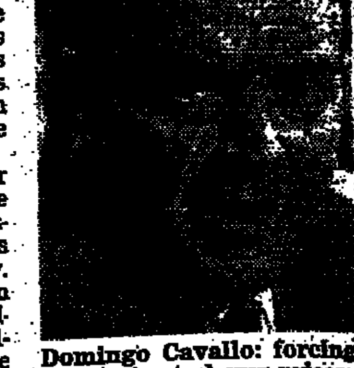
Congress, meanwhile, is expected to make substantial changes to a package of tax increases Mr Cavallo requested to balance the budget by April. At the moment, the government is covering its deficit by printing money, inevitably feeding inflation.

Business reaction was guarded. Mr Gilberto Montagna, president of the Argentine Industrial Union, the leading business organisation, warned the policy would have to be "totally transparent, clear and automatic to avoid falling foul of bureaucrats with discretionary powers."

Last year, the dollar rose by 200 per cent against the austral, while inflation increased prices by 1,344 per cent, creating a huge *de facto* revaluation in the Argentine currency.

Companies increased prices in line with inflation or the exchange rate, whichever was the highest. Mr Cavallo has now demanded that companies lower prices to their level in dollars between April and June last year.

● Uruguay has been asked for political asylum by Argentine army rebels. Officials said yesterday Major Pablo Llanos requested asylum on Monday. He participated in a mutiny on December 3 and went into hiding after the rebellion collapsed. Two other officers have also asked for asylum.



Domingo Cavallo: forcing companies to lower prices

Mexico faces blow just as it gets to its feet

Recession north of border threatens US-dependent economy, writes Damian Fraser

FEW economies are more vulnerable to a US recession than Mexico's. And there is a danger that the US recession will hit it just as it is showing signs of life after a decade of austerity and falling living standards.

Two-thirds of the country's exports go to its northern neighbour, while most of its foreign investment comes from there. The past two big US recessions – in 1974 and 1982 – were followed by rapid deteriorations in Mexico's balance of payments, recession, and political tumult.

Mexico in one respect is more threatened by a US recession than in the past. Since the beginning of the 1980s the country has become much more dependent on US-bound non-oil exports to generate growth and pay for a burgeoning import bill. In 1982 non-oil exports accounted for just one quarter of the total exports of $21.2bn. In 1990 they are estimated to have made up more than two-thirds of an expected total of close to $27bn.

However, the vast majority of these new manufacturing exports are going to the US. While in 1982 Mexican exports to the US were 52 per cent of the total, they were 70 per cent by last year. Mexico's next biggest trading partner is Japan, which now takes less than 6 per cent of its exports, down from 6.8 per cent in 1982.

In recognition of its vulnerability to the US economy, the Mexican government is negotiating, in addition to the free trade agreement (FTA) with the US and Canada, free trade zones with the Central American republics and Chile, and is discussing the possibility with Colombia and Venezuela. In April Mexico is due to reach a trade accord with the European Community, which will promote investment and technological co-operation.

Since Mexico joined the General Agreement on Tariffs and Trade in 1986, imports have increased at an unprecedented rate – from $12.2bn in 1987 to an expected $29.7bn in 1990. Export growth has been more modest, and despite a windfall of $2.5bn from higher post-August 1990 oil prices, the country last year is estimated to have had a trade deficit, excluding *maquiladora* or in-bond plants, of just less than $3bn, from a surplus of $8.5bn in 1987.

The current account deficit, reflecting Mexico's service payments on its $80bn foreign debt, is much larger, at a little more than $6bn last year.

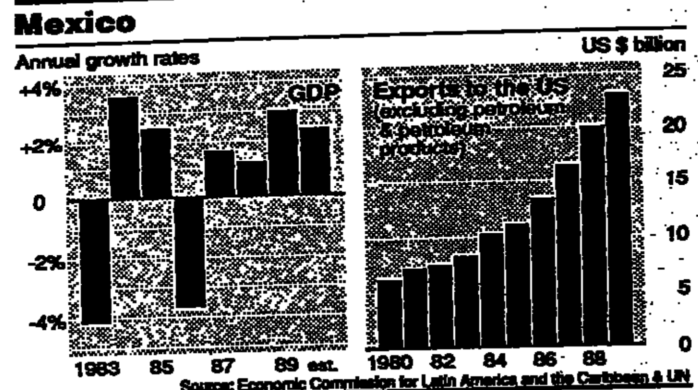
Add to this a lower oil price this year and a deep US recession, and you have, according to Mr Allen Sinai, the chief economist of the Boston Company, a US merchant bank, "a real threat to the revival of Mexican growth".

The US recession will also reduce demand for Mexican oil; given that the oil price may well fall over the year, revenues from oil are unlikely to equal the estimated $10bn of 1990. A big fall in tourism, which already is suffering from over-capacity, would further hurt the current account.

Mexico's manufacturing exports are also likely to suffer, but government statistics do not yet bear out Mr Sinai's pessimism on this front.

Towards the end of last year growth in Mexico's industrial production accelerated just as the US economy started to falter; from January to June industrial production increased by 4.1 per cent compared with the same period a year before; in the nine months to October cumulative growth increased to 5.1 per cent.

Mexico



Source: Economic Commission for Latin America and the Caribbean & UN

Mexico's non-oil export growth was surprisingly strong at the end of 1990, just when the impact of the US recession should have been felt. Up to June cumulative growth of non-oil exports was a modest 7 per cent compared with the year before; by November growth had increased to 12 per cent.

Cheered by these figures, Ciemex-Wefa, Mexico's reputable private sector forecaster, argues that Mexico should escape relatively unscathed from the US recession. It says many US manufacturers are reacting to the US recession by switching – or maintaining – production to Mexico to take advantage of lower labour costs.

Growth in the car industry, often thought to be most vulnerable to a US recession, remained buoyant in the third quarter of 1990, at a time when US demand was slowing; in the nine months to October the motor industry grew by 50 per cent compared with the same period in 1989. Ford, Nissan and Mercedes Benz have all recently announced plans to expand production.

Further, there is no evidence that the *maquiladora* industry is in recession. In the 10 months to November 1990 the sector grew by 21.4 per cent compared with the same period in 1989, with no sign of growth tailing off at the end of the year.

This year growth is likely to slow, but should still be an impressive 15 per cent, according to both Ciemex-Wefa and Canacintra, Mexico's small businesses association. Most of the big *maquiladoras*, such as General Motors and Philips, are sticking to their plans to increase production from their in-bond plants.

However, 1990's figures may give a misleading picture of what is in store for Mexico. In 1981, when the slowdown in the US economy was already under way, the Mexican economy grew by a startling 8.8 per cent – only to crash the following year. Although such a big reversal is unlikely this year, the economy's greatest danger, as in 1981, is that it is growing too *fast* for its own good.

If imports continue to grow by 25 per cent a year, and the US does not recover from a recession soon, Mexico may not be able to export enough, or attract sufficient foreign capital, to finance its growing current account deficit.

The government has already taken precautions against a drying up of foreign capital by building up about $10bn of foreign reserves. But it will want to hold onto the reserves, to deter financiers from speculating against the Mexican peso, especially, if, as expected, the peso is soon fixed against the dollar.

Instead, the government may have to choose between cutting Mexico's domestic demand or risk a balance-of-payments crisis later next year. With elections in August the choice is an awkward one.

Peru takes measures to curb cholera epidemic

THE government of Peru yesterday announced emergency measures to control a cholera epidemic that has claimed more than 70 lives since late January, AP reports from Lima.

The announcement was apparently in response to a declaration by World Health Organisation officials in Geneva that the epidemic could spread across Latin America unless quickly controlled.

A Health Ministry spokesman said that 77 people had died of the disease, out of 11,085 reported cases.

News reports said the epidemic has spread into parts of the Peruvian highlands and jungle areas that had previously been unaffected.

The housing and construction minister, Mr Guillermo Del Solar said the government planned to issue chlorine tablets to the population to sterilise the water.

The minister's announcement followed laboratory analysts' reports that samples of Lima's drinking water contained faeces.

A spokesman for state-owned water company Sedapal denied the charge.

Cholera, spread in faeces-contaminated water and food, affects the intestines, causing diarrhea and severe fluid loss.

A health ministry official said the government on Friday will send out 200 doctors and 700 nurses to towns along Peru's coast.

Nations bordering Peru have stepped up health precautions and debated whether to close borders to prevent the spread of the disease. Bolivia, Ecuador and Chile have banned importation of Peruvian foods and have made vaccination obligatory for travelers from Peru.

Fishing union leaders also complained that business had slumped following a Health Ministry communique warning the population not to eat seafood.

Lock-out at Nicaraguan post office

By Tim Coone in Managua

THE Nicaraguan government locked out employees from the central post office in the capital, Managua yesterday, disrupting international mail and telecommunications services, after opposition trade unions called for renewed industrial action against the government's economic policy.

The powerful National Workers' Front (FNT), a union confederation with over 300,000 members which controls most of the public sector unions, issued the call on Tuesday after a breakdown of talks to end a four-week long hospital strike.

Mr Lucio Jimenez, FNT secretary-general, accused the government of failing to adhere to a "social pact" agreement it signed with the FNT last October, which put a stop to plans for big job cuts in the public sector.

WORLD TRADE NEWS

New US-Japan chip pact 'would deter adventurism'

By Ian Rodger in Tokyo

RENEWAL of the 1986 Japan-US semiconductor trade agreement would be a strong deterrent to political adventurism in this sensitive sector in both countries, a senior US chip industry official of the US Semiconductor Industry Association (SIA) said yesterday.

Mr Norman Neureiter, president of Texas Instruments Asia, said it was important to remember the strong feelings chip industry problems generated in the US Congress. Four years ago, congressional anger over alleged Japanese violations of the chip pact resulted in the US Administration *imposing punitive 100 per cent* tariffs on a wide range of Japanese goods.

"Having an agreement which establishes an orderly framework for addressing those issues is a great deterrent to political adventurism on either side," Mr Neureiter said at an SIA briefing. Formal negotiations on renewing the agreement, which expires in July, begin next week in Washington. The agreement was intended to stop dumping by Japanese producers and to improve access to the Japanese market for US chip makers. The Japanese Government takes the view that the agreement is no longer needed.

SIA officials acknowledged that dumping had long since stopped and that access to the Japanese market had been improving rapidly in the past two years, particularly since big Japanese consumers, such as motor companies, began entering into design projects with US makers.

However, these commitments had not yet borne fruit and foreign producers' share was still well below the 20 per cent level indicated in a controversial side letter to the chip pact. Mr Neureiter said that renewal of the pact would confirm the commitment on both sides to sustain the momentum towards making the Japanese market truly open. The SIA has urged the *US Government* to insist on keeping the 20 per cent target in the agreement until the end of 1992, when the need for any *further quantitative target* could be reviewed.

Mr Roger Mathus, director general of the SIA office in Tokyo, said the SIA was committed to free markets, and the 20 per cent figure was not a rigid demand or something that had been guaranteed by the Japanese side. "To my knowledge, SIA has never maintained that this would be a guaranteed market share." It was to be a measure of the competitiveness of the Japanese market. Until recently, US-made chips had never obtained more than a 10 per cent share of the Japanese market, much less than in other major markets.

US to decide on freeing telecoms market soon

THE US Federal Communications Commission (FCC) will shortly have to decide on a controversial request which would further liberalise the US telecommunications market by treating foreign-owned US companies like their American counterparts, Nancy Dunne reports from Washington.

The Commission has just ended the period set aside for public comments on a petition, requesting removal of "burdensome" regulatory requirements on subsidiaries of foreign companies, which provide international service.

The petition was submitted by British-owned Cable & Wireless at the request of the FCC, according to Mr Brad Larschan, a Washington lawyer representing the company.

It has reopened the debate about foreign ownership restrictions, imposed through regulation, in a market the Bush Administration prides itself as being "the most open in the world".

Among American companies, only AT&T, which dominates both US domestic and international routes, shares the same regulatory load. AT&T holds 84 per cent of the US international market, according to C&W.

C&W maintains in its petition that FCC regulations effectively prohibit foreign-owned US carriers from competing in the US market.

The rules require C&W and other foreign-owned carriers to "repeatedly return for additional authorisation for insignificant changes in services."

They have imposed high costs and "significantly hampered" negotiations with other carriers and foreign entities.

The debate had reopened into curbs on a market the White House prides itself on, as being *the 'most open in the world'*

The FCC's ruling could mean a sharp break from past policy *in one of two directions.*

The Commission could chose to rule for C&W on the basis of "national treatment" – that all foreign-owned companies be treated equally to American companies.

This would ease regulations on all foreign-owned US subsidiaries.

Or it could adopt the argument, increasingly heard in Washington, for "reciprocity", and grant C&W's request on the grounds the UK market is currently as open as the US. This would affect only UK providers.

The commission might still deny the request, as many US companies have urged. They maintain that foreign carriers should be treated differently because, through cross-subsidisation or influence in other markets, foreign companies *could damage their interests.*

AT&T has asked that the petition be denied, saying C&W and its affiliates hold monopoly or strong positions in a dozen foreign countries and territories, like Hong Kong, where they can "exert leverage in offers to customers and in arrangements for the provision of services."

Although the FCC has given no indication how it will rule, C&W has the US Treasury apparently weighing in on its side.

A Treasury comment concluded: "We do not believe more onerous regulatory requirements should be placed on foreign-owned than on US-owned *carriers in this case,* unless and to the extent that such differentiation can be clearly justified by well-defined competition policy concerns."

The British government has taken particular interest in the case to the extent of calling in an economic officer in the American embassy in London to put its case.

French win FFr7bn deal for tankers to Malaysia

CHANTIERS d'Atlantique, France's only big shipbuilder, has won a FFr7bn (£700m) order from the shipping subsidiary of Petronas, the Malaysian national oil group, for five liquid natural gas tankers, William Dawkins reports from Paris.

The deal was won against fierce competition from three Japanese shipbuilding groups, the closest of which was Mitsubishi, and gives two years' work to the yard, at Saint-Nazaire on the Loire estuary.

Until the order was confirmed yesterday, Saint-Nazaire's 4,500 workforce was due to have completed its order book of four cruisers, seven military vessels and a dredger by the end of next year.

It adds significantly to the existing world fleet of 60 meth*ane tankers, and indicates the* Malaysian group's long-term optimism over world consumption of natural gas, GEC Alsthom, the Franco-British engineering group which owns the yard, said.

This is the first order for a methane tanker of any kind to go to Chantiers d'Atlantique for more than 10 years, since when the market for this type of vessel has been dominated by Japanese yards, which produced 13 tankers over the period.

Chantiers d'Atlantique, *which in the year to last March* made a net FFr43m profit on sales of FFr5.3bn, produced nine methane tankers in the 1970s.

The French Government has supplied production aid "well below" the limit of 20 per cent of contract value allowed under European Community shipbuilding subsidy rules, GEC Alsthom said.

The subsidy is designed to bridge the gap between French and Far Eastern operating costs.

The vessels, with a capacity of 130,000 cu metres each, will be delivered between July 1994 and 1997 to Petronas Marine, during which time they will represent between a third and a half of work under progress at Saint-Nazaire. Chantiers d'Atlantique also announced a FFr530m order for two frigates from the French navy, to add to the four already being built.

Truck makers strengthen E Europe links

WESTERN European truck makers are seeking to strengthen their presence in eastern Europe, Kevin Done *reports.*

● MAN Nutzfahrzeuge, the German commercial vehicle maker, has made a co-operation agreement with the leading Polish heavy truck maker Jelczanskie Zaklady Samochodowe (Jelcz).

The agreement, which includes trucks and buses, is expected to lead to co-operative projects for truck cabs, engines, *city* buses and light and medium trucks. MAN said the accord would give Jelcz access to modern commercial vehicle technologies, while the German truck maker hoped to strengthen its presence in eastern European markets.

Jelcz, located near Wroclaw *with a 5,800 workforce, makes* city buses and coaches as well as heavy trucks (above 15 tonnes gross vehicle weight). It can produce 4,000 buses and 6,000 trucks a year with about 80 per cent of output currently *being sold in the domestic Pol*ish market.

● Iveco, the Italian commercial vehicle maker, which is a Fiat subsidiary, is developing its presence in Yugoslavia by changing its previous management and technology agreements with two local commercial vehicle makers into equity stakes.

Iveco is taking a 27.5 per cent holding in TAM Gospodarska Vozila Maribor, a new joint company with limited liability, for the assembly of heavy commercial vehicles. The TAM group, *located in Maribor, will* hold the majority stake of 72.5 per cent.

The Italian group is also tak*ing a 40 per cent stake in Zas*tava Kamioni, based in Kragujevac, which assembles light and medium commercial vehicles under licence from Iveco. The remaining 60 per cent is held by Zastava, the *Yugoslavian vehicle maker.*

Last year, Zastava sold 5,500 commercial vehicles and TAM 4,500.

● Volvo of Sweden confirmed it was pursuing negotiations with Czechoslovak truck producers Tatra and Liaz, about restructuring the European truck sector," the company said. A delegation from Tatra, which produces around 15,000 trucks a year, visited Volvo in Sweden last week.

Separately, Volvo's car division has signed an importer agreement in the Soviet Union *with Logovaz, a Soviet joint* venture company in which VAZ, the Soviet maker of Lada cars, is a part-owner.

Retail sales outlets are to be set up soon in Moscow, Leningrad and Tbilisi. Volvo hopes to work with Auto Vaz Service to build an adequate Volvo service network in the Soviet Union. Through its diplomatic sales activities, Volvo currently has around 5,000 cars on the road in the Soviet capital.

● General Motors of the US is holding exploratory talks with FSO, the Polish car maker, about the possible assembly of 10,000-15,000 Opel cars a year at the FSO Warsaw plant.

FSO is conducting parallel talks with both Fiat and GM. Fiat has put forward plans to develop the Polish car industry, including assembly, and engine and gearbox production.

● Nissho Iwai, a Japanese trading company, is setting up an import and sales company for Toyota vehicles to be called Toyota Motor Poland. The com*pany plans to open* 20 sales outlets, with sales forecast to reach 1,700 this year.

World Bank arm agrees Nigeria, Pakistan loans

THE INTERNATIONAL Finance Corporation (IFC), a *member of the World Bank* Group with a mandate to stimulate economic growth in developing countries through investment in the private sector, has agreed to two loans - \$5m (£2.5m) to the Pakistan Industrial Leasing Corporation (Pilcorp), and \$10m to the Nigerian American Merchant Bank Ltd (NAMBL), Our World Trade Staff reports.

Pilcorp began operations in 1989 and *is now one of 14 leas*ing companies in Pakistan. Alone of these companies, Pilcorp has focused operations on writing leases for large plant and equipment items.

IFC's loan is part of a financial package of about \$14m, *including loans from the Asian* Development Bank, the Commonwealth Development Corporation and local financial institutions. The IFC loan will be repayable over 10 years in 16 equal semi-annual instalments.

The NAMBL loan is to be used for financing export-oriented and medium-sized projects. The credit line is being provided in response to strong demand in Nigeria for long-term foreign exchange resources, in the form of loans and equipment leasing for financing medium-sized enterprises in manufacturing, commerce and agriculture.

Italians to invest \$120m in Tunisian projects

AN *ITALIAN group of* investors led by Instituto Bancario San Paolo di Torino is planning to invest between *\$120m (£61.5m) and \$150m* in various projects in Tunisia, most notably the tourist sector, Francis Ghilès writes.

The group includes Valtour, the Italian tour operator, Carlo de Benedetti and Finbrescia. Tourism, food processing and textiles *are* the sectors which interest the group, which has set up an investment company with \$6.5m capital.

It has signed an agreement with the Tunisian authorities to obtain, for its tourist activities, an exemption from the local law which does not allow foreign investment companies to own more than 30 per cent of the capital of a joint venture.

Valtour is interested in the northern coast resort of Tabarka. Other Italian groups are discussing joint venture projects, notably in the expanding food-processing sector.

Mexico contracts for Olivetti

OLIVETTI of Italy has signed \$10m (£5.1bn) worth of contracts with public and private companies in Mexico and Argentina, Mr Vittorio Cassoni, general manager of Olivetti, said yesterday.

"We should pay a lot of attention to Mexico and make it a priority in term of investments," Mr Cassoni added before his return home.

Olivetti has signed contracts for new information systems with the Mexican government's departments of business and industry, agriculture and welfare, and with the state-run oil compny Pemex.

The accords call for the installation of 50 multi-user CP 486 computer processing systems based on Intel's 32-bit microprocessor, 1,300 personal computers and more than 1,200 printers.

Manila trade facility endorsed

By Greg Hutchinson in Manila

THE 12-member advisory committee of foreign bank creditors to the Philippines has endorsed the country's request for a two-year extension of a \$2.9bn (£1.48bn) trade facility, Mr Jesus Estanislao, Manila finance secretary, said yesterday.

The endorsement will be sent out to the more than 300 creditor banks of the Philippines. An extension was requested because the current trade facility agreement expires this June.

The endorsement should have been sent out earlier but two banks withheld approval, despite lengthy and intense negotiations. The approval was subsequently granted.

The road to lower UK interest rates ran through Basle and Madrid

YESTERDAY's cut in UK bank base rates was long in gestation, reflecting Britain's recently acquired position as a full member of the European Monetary System, and further rate cuts are only likely to follow similar agonising by the UK monetary authorities, writes Peter Norman.

The decision to trim base rates by half a percentage point to 13¾ per cent followed a growing clamour for an interest rate reduction from politicians, industry and the City. But the final move reflected a finely balanced judgment of recent progress towards reducing Britain's high inflation rate and an assessment about whether sterling, as the weakest member of the EMS exchange rate mechanism, could take the strain of the cut.

The decision to go for only a modest half point rate cut after four months of 14 per cent base rates was finally agreed on Tuesday evening, after assessing rapidly changing conditions both at home and abroad. The story of the base rate cut suggests that the next rate reduction is unlikely to happen in the immediate future, although a cut around Budget day on March 19 must be a possibility.

Mr John Major, the Prime Minister and Mr Norman Lamont, the Chancellor, reached a conditional decision to reduce interest rates at a private meeting late last week. This followed discussion of the issue in the middle of last week at a regular monthly meeting on monetary policy of senior Treasury and Bank of England officials headed by Sir Peter Middleton, the permanent secretary to the Treasury and Mr Tony Coleby, an executive director of the Bank.

Because of the Spanish peseta's position as the strongest EMS currency, Mr Robin Leigh Pemberton, the Bank of England governor, then discussed the possibility of a UK rate cut and how it would fit with monetary conditions in Spain with his Spanish opposite number, Mr Mariano Rubio Jimenez, at a meeting of central bank governors in Basle, Switzerland, on Monday and Tuesday this week.

The final go-ahead was given on Tuesday night after officials from the Treasury, the Bank and Number 10 Downing Street were reassured that the retail prices index for January, which will be published tomorrow, would continue to show a disinflationary trend and that Monday's news of a January jump in British factory gate prices was a rogue figure. Retail price inflation is generally expected to have dropped to around 9 per cent in January and below 5.5 per cent by the end of 1991.

Yesterday's rate cut was facilitated by a simultaneous decision by the Bank of Spain to cut one of its key money rates to 14.5 per cent from 14.7 per cent, although British officials say that the two moves were not strictly coordinated.

It emerged that the Treasury and Bank had begun considering the possibility of a base rate cut before the outbreak of the Gulf war in the middle of January.

However, in spite of growing evidence that the economy was entering a deeper recession than foreseen by the government at the time of its Autumn Statement in November, action was deferred by sterling's weakness against the Deutsche mark and other ERM currencies shortly after the outbreak of war.

The Bank, in particular, wanted to build up the pound's credibility in the ERM, which Britain joined in October last year. The depreciation of sterling in late 1989 and early 1990 is now regarded in Threadneedle Street as having caused a serious delay in reducing inflation in Britain.

Last week's decisions in principle were reinforced by the steadiness of sterling in the ERM and a growing belief that German interest rates, which were raised by the Bundesbank on January 31, have now peaked. German money market rates in recent days have been lower than before the half point increases in official German rates two weeks ago.

In its domestic money market operations at the end of last week, the Bank did not act to resist a downwards trend in the key three month interbank interest rate, which generally tracks bank base rates. Sterling stayed steady, albeit at the bottom of the ERM, strengthening the belief that a rate cut would be possible.

Monday's news of a 1.2 per cent jump in factory gate prices in January was a setback. But in the event, financial markets appeared to accept the official explanation that the figures were "suspect."

Yesterday's interest rate decision was one case where the Bank of England, Treasury and Downing Street could agree that a modest rate cut was necessary and desirable.

The main interest of the Bank and Treasury now is to ensure final victory is achieved over inflation and that sterling becomes increasingly credible as a member of the ERM.

For that reason, neither the Bank nor Treasury are anxious to move swiftly to cut rates again.

Streetwise: in the City of London the news breaks that the long-awaited cut in interest rates has been made

Tories told to remain calm in economic squall

By Philip Stephens

MR JOHN MAJOR knows better than most the political havoc threatened by a loss of collective nerve among Conservative MPs. It is to just such an occasion last November that he owes his succession to Mrs Margaret Thatcher.

So from the perspective of Westminster, yesterday's half-point cut in base rates carried a simple message. The recession was going to be rough - very rough - but if they kept calm the government's supporters could be confident that falling inflation would deliver reductions in mortgage rates.

"It is simple psychology – just showing a chink of light at the end of the tunnel," one minister commented. He was quick to add that the economic case for lower borrowing costs was "irrefutable."

What the minister was less certain of was that the instant political rewards of a small reduction in rates might not have to be paid for in weakened credibility in financial markets.

Though the markets reacted favourably yesterday, many in the government have not forgotten the price it paid last Autumn when sterling's entry into the Exchange Rate Mechanism (ERM) of the European Monetary System was combined with a 1 point cut in rates.

After a burst of euphoria, the markets judged that the government was putting politics before economics in its interest rate decisions and the pound drifted to the bottom of its ERM band.

So the unhappy coincidence of another base rate cut with the Commons debate on the economy and with

BRITISH industrial groups welcomed the cut in the cost of borrowing but said further reductions were needed to bring interest rates into line with overseas competitors.

The Confederation of British Industry, the employers' organisation, and the Institute of Directors agreed that the cut would "provide a degree of relief" from the pressures of the recession, the slowdown in world markets and the uncertainties arising from the Gulf crisis. But they expressed disappointment that it was less than the one per cent reduction which was "desperately needed" by businesses.

a public demand for a much larger reduction from a group of right-wing economists raised more than a few eyebrows. The cut was right but the timing was "inept" one senior Tory MP commented. "Strange" mused another.

Mr Norman Lamont, the Chancellor of the Exchequer, urged caution in the face of demands for a more radical reduction in interest rates than the half percentage point cut to 13.5 per cent.

He denied that the government was locked into high interest rates indefinitely, and rejected suggestions that a mistake had been made in setting DM2.95 as sterling's central rate in the ERM.

The Chancellor stressed that "the overriding factor in setting interest rates now is the need to meet our ERM obligations and keep sterling inside its agreed bands." Future reductions in interest rates would only be made when sterling's position in the ERM permitted – "when we judge the reduction to be sustainable and safe."

Refusing to accept the view of some of his critics that inflation was already beaten and could now be ignored, he said it was often during the downturn "that the seeds for the next bout of inflation" were sown.

If Mr Lamont succeeded in steadying those of his own backbench MPs whose nerves were fraying, the opposition Labour Party could argue that its planned onslaught in the Commons had panicked him into action.

The Thatcherite economists – led by Sir Alan Walters – who demanded a two-point cut in a letter yesterday to The Times could make the same claim.

Nor will a half-point reduction satisfy either group in that strange alliance. For them it was too little too late. Sir Alan and his colleagues reinforced the message with their demand for a devaluation of sterling within the ERM.

Devaluation, however, is not an option the prime minister can contemplate. If he has spent much of his time over the past two months gently distancing himself from some of Mrs Thatcher's policies, sterling's rate in the ERM cannot be treated as an unwelcome hangover from a past era.

It was Mr Major who persuaded Mrs Thatcher to accept the disciplines of the system. To disavow them now would wreck his political credibility.

So few believe that he has now fired the starting gun for a rapid series of further reductions in borrowing costs to pave the way for a June election.

Mr Lamont will be under pressure to bring down interest rates by enough to ensure that the economy allows Mr Major the option of an early poll.

More than one minister yesterday was talking in terms of a reduction of a further point or so by the time of the May local elections. The results of that poll will be central to Mr Major's judgment on whether to go to the country the following month or to wait until October or 1992.

The general view, however, is that sterling's participation in the ERM and the profile of the expected fall in the inflation rate will impose strict limits on anything beyond that.

So barring the unpredictable – and unless the political dividends of the Gulf war prove much greater than most expect – the weight of opinion in the Cabinet still favours a 1992 poll.

It was that message that emerged from between the lines of Mr Lamont's speech in the Commons. The next few months would be tough, but from April the decline in the inflation rate would accelerate. It might well be below 5 per cent by the end of the year. The government could face the electorate next year with inflation reconquered and an upswing under way.

Mr Lamont might be the first to acknowledge, however, that it all depended on the government – and its supporters – keeping their nerve.

Lex, Page 16; Leader, Page 15

Recession most acute in south and Midlands

By Rachel Johnson, Economics Staff

THE recession has deepened in every UK region but is hitting the southern and central parts of the country hardest, according to the latest regional trends survey.

The survey, published jointly yesterday by the Confederation of British Industry and Business Strategies, a regional and economic consultancy, shows that all regions are experiencing falling orders and demand. This has caused job losses and a nationwide fall in capital spending.

The three quarterly regional surveys so far produced have provided a useful guide to the recession's progress through industrial sectors and the regions. Yesterday's survey questioned 1,250 manufacturing companies between December 18 and January 16.

Mr Charles Burton, managing director of BS, said the sharpest declines were in the east and west Midlands and Northern Ireland.

The first survey six months ago showed that not all regions were experiencing declining demand, and the "patchy" recession had begun in the south-east and the West Midlands.

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SCHOOLS INSPECTORATE REPORT

Education 'sub-standard' for 30% of schoolchildren

By Norma Cohen, Education Correspondent

NEARLY a third of English schoolchildren are receiving sub-standard instruction, the government's independent schools watchdog said.

The assessment is likely to heighten further the Tories' concern about the political repercussions of their education policies.

Mr John Major, the prime minister, in his speech to Young Conservatives at the weekend, put education at the top of the Conservative political agenda.

John Major: sought to put education at top of Tory political agenda

In its annual report for 1989/90 published yesterday, Her Majesty's Inspectorate (HMI) of Schools said 30 per cent of all instruction was poor, a level equal to that of 1988-89.

In particular, reading standards were described as "unsatisfactory" in a fifth of primary schools. "There are worryingly poor standards among particular groups and in particular parts of the education service," HMI said, noting that the less academically able were suffering disproportionately.

The report said the poor work was not associated with specific teaching methods but appeared to be due more to inadequate planning and unsound management.

Only a third of work at all levels was judged to be good or very good, although most work was at least satisfactory.

The report noted that nearly two-thirds of work in the later years of primary schooling was not demanding enough and a disproportionate amount of unsatisfactory instruction occurred during those years.

Mr Eric Bolton, chief schools inspector, said although some of the data present a troubling picture, they prove that there is no basis for the conclusion that standards are falling.

In some areas, such as pass rates at GCSE level – the exams taken by 16-year olds – the data show distinctly higher standards.

Also, national curriculum subjects such as physical sciences and information technology are being taught universally, unlike a few years ago when they were barely being taught in primary schools at all.

Mr Bolton said, however, that there was no room for complacency.

The report records some positive achievements from the introduction of the national curriculum, still being phased in to England and Wales.

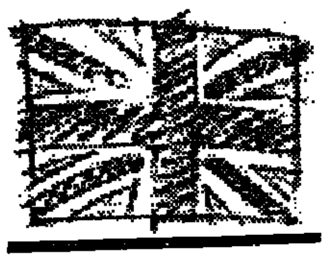
Contrary to fears expressed in the previous HMI report, teachers' job satisfaction and morale have not been undermined by its introduction.

Instead, planning for the curriculum has had a marked and beneficial effect on the planning of topic work and there has been a noticeable improvement in standards for the youngest children in primary schools where the national curriculum has been put in place.

The report also expresses concern about teacher supply, particularly in inner London, where better pay deals and innovative advertising campaigns have failed to make a sufficient impact. Staff turnover in some had rendered continuity of learning and the maintenance of high standards "virtually impossible."

In addition, one in eight secondary schools had a shortage of qualified teachers and there remained a shortage of specialist teachers. The report noted that allowing teachers to take the in-service training courses needed to help them teach and assess the national curriculum are hampered by absence of supply teachers for classes.

BRITAIN IN BRIEF



European first for law firm

A UK solicitors' firm has become the first in Europe to be awarded the international quality standard "kite mark" for legal services.

British Standard 5750 was awarded to Manchester solicitors Pannone Blackburn after it satisfied the British Standards Institute that it complied with quality standards for lawyers which have been drawn up by the BSI in conjunction with the Law Society.

The Institute estimates that 50 per cent of the 9,500 law firms in England and Wales will apply for certification over the next two years.

Opposition in hunger protest

Opposition Labour leader Neil Kinnock and shadow cabinet colleagues joined a 24-hour hunger protest to highlight the plight of the world's starving millions.

Mr Kinnock joined shadow chancellor John Smith and fellow Labour MPs at a fasters' lunch where only mineral water was served.

The money they saved on food, together with sponsors' donations, will be given to the Crisis in Africa Appeal organised by the Disasters Emergency Committee.

Labour's spokesman on overseas development and co-operation, Ann Clwyd, said 27m people faced famine in African countries.

"We are fasting today to remind the British government of its responsibility," she said.

BT to sponsor Eisteddfod

British Telecom is to sponsor the National Eisteddfod, the annual Welsh-language festival, to the tune of £115,500 over three years.

BT, the festival's largest corporate sponsor, has been associated with the eisteddfod for the past 11 years. Last year it gave just over £30,000 towards the event.

Airport security 'not to blame'

Airport security procedures were not to blame for the Lockerbie disaster, the inquiry was told as it drew to a close.

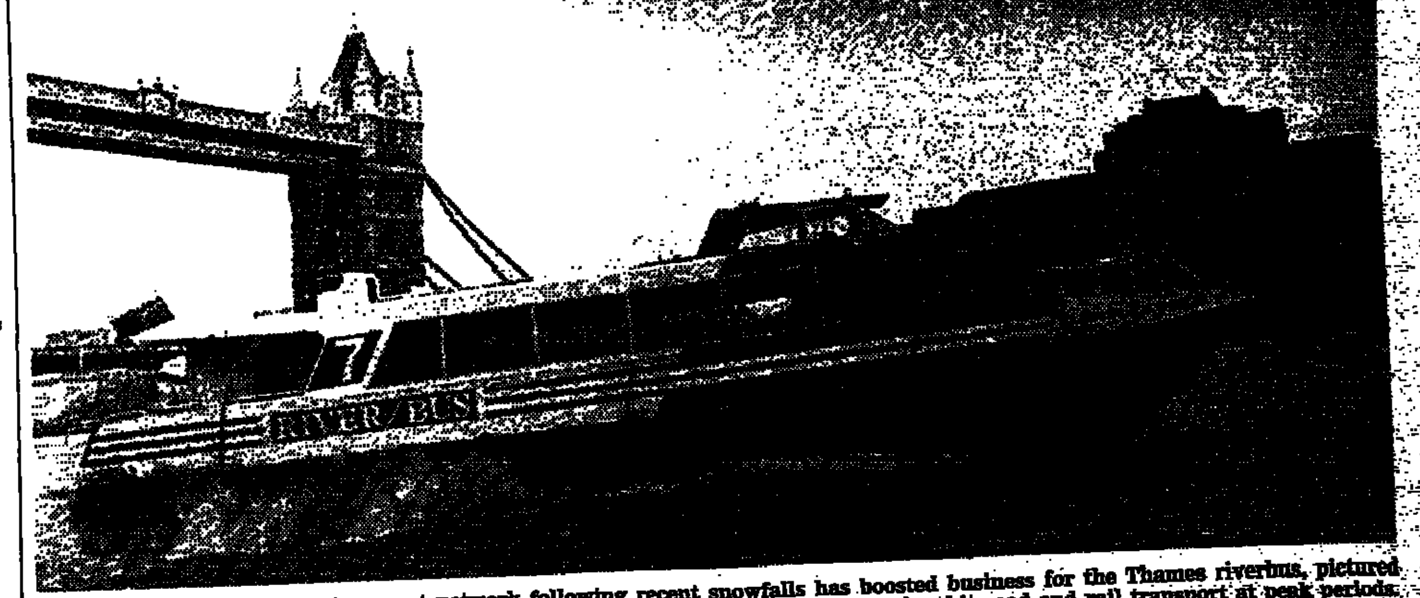
Mr Colin McEachran QC defended the Department of Transport's baggage security procedures in the run-up to the disaster against severe criticism by both the Crown and lawyers for relatives.

"Much reliance has been placed on a well-turned phrase, but little on the evidence laid before this inquiry," he said.

Hoover workers offered freeze

National union officials have been asked to attempt to resolve a dispute at the Merthyr, south Wales, plant of Hoover after management announced plans to freeze pay, cut jobs and change working practices.

Workers have been angered by a 5 per cent pay deal at Hoover's other UK plant, in Cambuslang, Scotland.



The disruption to London's transport network following recent snowfalls has boosted business for the Thames riverbus, pictured above. The service between Chelsea and the docklands has escaped the chaos that has hit road and rail transport at peak periods.

Regulators unlikely to relax capital rules

By David Lascelles, Banking Editor

BANKING regulators do not intend to relax rules on bank capital in spite of fears that these are adding to the economic squeeze on banks, a top international banking official said yesterday.

Mr Peter Hayward, secretary to the Basle Committee on banking supervision which drew up the rules, told an FT banking conference in London that it would be "incongruous and in the interest of neither depositor nor shareholder to encourage banks to carry less capital at times such as these".

Although there were clear dangers for banks in recent economic developments, Mr Hayward questioned the idea that banking markets were caught in a "credit crunch" where even good quality borrowers were unable to obtain loans. "I see little evidence of this" he said, pointing to the fact that interest rates were falling rather than rising in many countries.

Mr Hayward's remarks pitched him into the centre of the debate about how the stresses of the banking system can be eased.

Only 24 hours earlier the Bush administration had called in its annual Economic Report for amendments to the Basle framework to facilitate the flow of lending to the US economy. In its present form, the agreement was forcing banks either to cut back their lending or raise new capital in difficult markets, the report said.

FT CONFERENCE
INTERNATIONAL BANKING

At yesterday's conference, Sir John Quinton, the chairman of Barclays, the UK's largest clearing bank, also criticised the Basle agreement for loading banks with an unfair burden, and reducing their ability to compete for financial business with non-banks.

"Banks are beginning to recognise that the Basle arrangements may place them at a permanent disadvantage in the international financial market and lead to a shift away from bank intermediation towards other forms of financial transfer," he said.

Mr Hayward said his committee was studying this issue in conjunction with securities regulators and hoped to hold consultations towards the end of this year. But it would be a long time before any new proposals were implemented, he said.

The 1988 Basle agreement lays down minimum capital levels for all international banks. It is being phased in by 1992. Because it obliges banks to carry more capital for a given amount of loans it has been blamed for reducing the lending capacity of the banking system.

Sir John told the conference that the world banking industry faced a shakeout "on an unprecedented scale" over the next five years.

He said the combined pressures of change, economic stress and severe competition were creating difficulties greater than any he could recall. But for banks that were strong and well managed, this was also a time of opportunity. He rejected suggestions that banks were becoming superfluous.

Mr William Seidman, chairman of the Federal Deposit Insurance Corporation (FDIC), said the US Treasury's recent plan to overhaul US banking regulation "adds up to a new financial structure – second to none – in terms of ability to meet the needs of tomorrow's financial environment". But he added that the plan was "just a starting point" that would be modified by political debate.

Mr Thomas Strauss, president of Salomon Brothers, welcomed more competition between commercial and investment banks provided it was fair.

He said the Treasury plan would give banks an unfair advantage by subsidising deposit insurance. He suggested that it should therefore be modified.

Mr Yuichi Ezawa, senior deputy director-general in the Japanese Ministry of Finance, said Japan was also reforming its financial system, and the freeing up of interest rates was putting new pressures on banks.

He added, however, that fears about the fragility of the Japanese banking system were exaggerated. The situation was being monitored closely by the authorities.

Mr John Flemming, chief economist designate of the European Bank for Reconstruction and Development (EBRD), said the new bank's role would be "catalytic" in stimulating financial flows to support east European reform.

Although the EBRD would offer a wider range of banking skills than other development banks, including merchant banking services, it would not be in competition with banks in the private sector.

Professor Wladyslaw Baka, former president of the National Bank of Poland, and Dr Imre Tarafas, first deputy president of the National Bank of Hungary, both stressed their countries' determination to press ahead with financial reform and privatisation.

Dr Eberhard Weiershäuser, managing partner of Schröder Münchmeyer Hengst, gave a financial view of German unification.

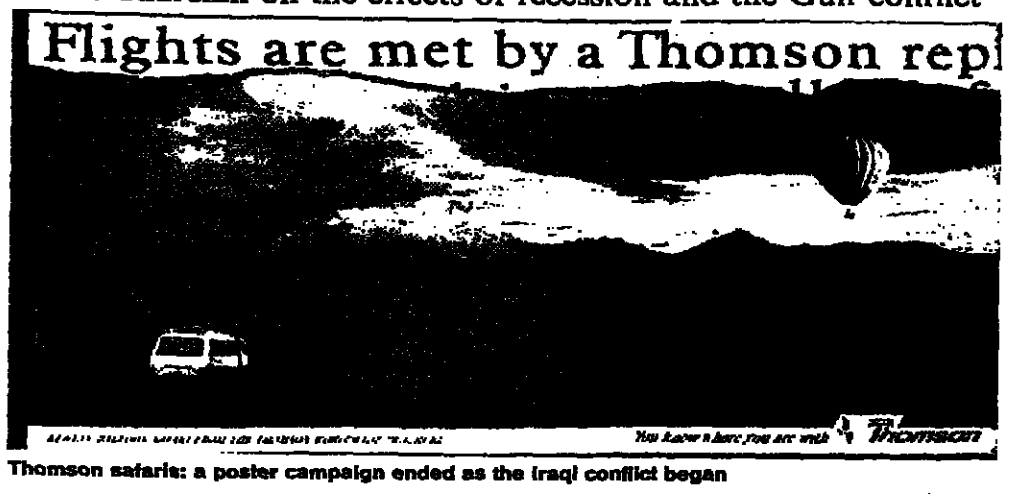
The conference continues today.

MANAGEMENT: Marketing and Advertising

Leisure industries under pressure

Opinion split on how to lure stay-at-homes

David Churchill on the effects of recession and the Gulf conflict



Thomson safari: a poster campaign ended as the Iraqi conflict began

What do you do when your market is decimated by factors outside your direct control?

Answer: you cut prices.

At least, that for some, is conventional marketing wisdom when the going gets tough due to a decline in demand. But the unusual combination this year in the UK of war and recession has devastated the marketing strategies of the hotel, airline and travel industries and thrown traditional tactics into some disarray.

The war, recession, and now the weather has probably hit the travel trade the hardest of all sectors in the past few weeks. European airlines are flying with only a third of their seats full since the war started; on the North Atlantic aircraft are often only a quarter or less full. London's hotels have an average of six out of every ten beds empty, well below break-even. Holiday bookings are running some 60 per cent down on this time last year.

This week British Airways led the fight back when it lopped a third off its current prices on the critical transatlantic routes out of the US (upsetting the US air regulatory authorities in the process) and immediately sparked off a price war which it and rival carriers can ill afford.

British Airways had also devised a major advertising and marketing campaign as part of its revamp this month of its economy class and travel operations under the Leisure Traveller banner; now it has pulled all advertising for the foreseeable future and its re-branding is left languishing.

BA is not alone with its price-cutting response. British Midland, the UK's second largest scheduled airline, has cut £31 off its return fares to Scotland with a new £63 return fare. "We are now cheaper than car or train," claims BM's marketing director David Perkins, admittedly with some bravado.

A few luxury hotels in London and other capitals have also given in to the unprecedented slump in demand by being prepared to bargain over the prices of their rooms. Leading multiple travel agents, faced with few customers prepared to book a summer holiday, have also continued with price-cuts at a time when they normally should be attracting full-price paying holidaymakers. "We need to discount to maintain and increase our share of a very weak market," insists Peter Rothwell, Lunn Poly's marketing director.

But is price the answer? "Absolutely not," insists Peter Bates, marketing director of the Savoy Group of hotels. "If you cut prices you never get them back up again." Nicola Hancock, marketing communications director for Hyatt hotels in Europe agrees: "It's wrong for five-star hotels to cut prices because it destroys the image and can force them to cut service and standards," she says.

Rosemary Astles, marketing director for Thomson Holidays, also eschews the price-cutting route. "The travel trade has gone down this path too often in the past," she recalls. "I think people are not booking now because of factors other than price, so it doesn't make sense to cut prices."

But Mike Grindrod, general manager of the Co-Op Travelcare chain of travel agents, disagrees. "The travel trade is losing more than £5m every day and airlines and operators simply won't be able to survive for much longer," he believes. "The tour operators should decide now whether to discount to get business moving again." He points out that within a few weeks they will have to decide whether or not to cut capacity for this summer and cancel charter airline seats and hotel reservations. "So why wait?" he asks.

"It's difficult actually to decide to do nothing dramatic but we feel it would be too much of an uphill struggle at present to persuade people to change their inclinations not to book holidays through a combination of price-cutting and advertising," admits Astles.

Thomson, in fact, had just finished a new advertising campaign before war broke out which sought to change its image with the public. The campaign, spread over 3,000 poster sites and double-page press advertisements, was aimed at pointing out the up-market holidays, such as safaris and city holidays, that Thomson sells as well as mass-package trips to Spain.

The campaign was part of Thomson's strategy over the past four years (since it last advertised on television) to improve the quality of its holidays and to concentrate on improving its profit margins rather than just filling empty airline seats and hotel beds. Last year it axed a fifth of its capacity when it saw that market demand was down, rather than cut prices. Other tour operators followed suit.

But what actually happened was that the price competition shifted along the distribution chain to the retailer. Travel agents, faced with a smaller market, began to offer discounts – in some cases up to £200 off the more expensive holidays.

In the current market conditions, however, it is a price-cutting gamble that may backfire. In a reduced market, multiple retailers can gain share from independents and still improve both volume and profitability on smaller margins.

The supermarket price wars of a decade ago proved this strategy worked. But the likes of Tesco and Sainsbury never had to compete with total market demand down by the scale it has been for the travel trade in recent weeks. "If the market doesn't pick up significantly in the next month, then many travel agencies – and that includes some of the majors – could go out of business," admitted one agent yesterday. Exchange Travel, for instance, went into receivership last autumn.

All that travel companies feel they can do in the present conditions is to fight back tactically rather than strategically. Lunn Poly, for example, has switched some marketing activity to the domestic UK market. "We're doing a special joint advertising campaign with Butlins and have doubled our sales of last year," says Rothwell.

Hyatt's Hancock agrees. "We've stopped our strategic image advertising because we feel it wouldn't be effective but instead are going for more tactical promotions, such as special week-end deals, which offer added value without harming our brand," she says.

The Savoy Group (which includes Claridges, Connaught, the Berkeley, Savoy and Lygon Arms) is still offering some tactical lures for North Americans – a free limousine pick-up from the airport and £125 in vouchers to spend in the Savoy Group hotels – but marketing director Bates has just cancelled a promotional tour to the US. "We're looking more closely at both the UK and continental markets now since they are likely to offer a better return in the immediate future," he says.

The Savoy, for example, is now adopting the tactic used by some of the big US chains of targeting secretaries (who are often responsible for making bookings) as well as conference and incentive groups which have decided to stay in the UK rather than travel for their meeting.

The British Tourist Authority and regional tourist boards are also trying to match up hotel and conference facilities with companies which want to hold their meetings in the UK rather than abroad. The BTA is pressing ahead with showing the flag abroad as part of its £23m advertising budget. "We think it's important to keep up our presence at international trade shows and with advertising where appropriate," says a BTA spokesman.

And even British Airways is not relying solely on price to generate business. Travellers out of the UK to the US, for example, are being given US dollar traveller cheques of up to $300 (for West Coast flights) as an inducement without actually cutting prices. The UK market, BA believed, required a more aggressive and up-front price-cutting campaign.

It is also using its database of frequent travellers to let them know that they will automatically be upgraded if they fly now. "We think it important to maintain customer loyalty for when things get better," says BA. Senior management have also called dozens of major companies to persuade them to lift their ban on executives flying at present.

Perhaps the main lesson the current crisis will teach the travel trade is that good marketing practices do not start when the chips are down but when times are good. When the war is over, those travel companies will be the best placed to benefit from the travellers' return.

Better by half and half

Clay Harris on devices for demanding premium poster prices

British outdoor poster contractors are always looking for ways to enlarge their mean slice of the advertising pie.

Posters account for only 4 per cent of advertising spending in the UK, compared with a market share three times higher in France and the Netherlands and four times higher in Belgium.

With planning restrictions unlikely to allow a huge growth in the number of sites, contractors have to squeeze more value out of each one. This requires them to continue to develop eye-catching products which command a premium rate.

The last poster group to achieve this success on a large scale was More O'Ferrall, which has developed 21,000 illuminated Superlite panels, 57 per cent of the bus-shelter sites it markets in the UK. Superlite sells for twice the price of its slightly smaller unlit counterpart.

Mills & Allen, the largest UK contractor, now plans to try a similar move up-market by creating a national network of "Twins", side-by-side billboards in a single unit. Each of the two 48-sheet hoardings is 20 ft wide by 10 ft tall.

The concept has been imported from France, home of Avenir Havas Media Group, Mills & Allen's parent company since 1989. The UK poster company's former owner, the money broker MAI, has a 20 per cent stake in Avenir Havas.

Initially there will be only 220 Twins installations in Britain. But advertisers' response may determine whether Philippe Santini, Mills & Allen's chief executive, will be proved right in his prediction that posters will double their UK advertising market share to 8 per cent by the mid-1990s.

Twins are being aggressively priced. Normally, 96-sheet panels are sold at four times the rate for a 48-sheet hoarding, even though they are only twice the size.

Contractors justify this premium because of the greater visual impact of the huge billboards and because they usually are in prime, high-traffic positions.

Michael Horner, Mills & Allen's sales director, says the same arguments will apply to Twins, which will cost 15 per cent more than 96-sheets. A 14-day national campaign on the initial network would cost £210,000 and 28 days £350,000.

Mills & Allen also expects the unusual two-panel format to spark imaginative campaigns. "We developed this medium for the creatives," Horner says.

After a promotional launch with posters for the World Wide Fund for Nature's Rainforest Appeal, the first paying customer for Twins will be Vauxhall. The General Motors subsidiary is one of the largest outdoor advertisers in the UK after tobacco companies, which have fewer available outlets.

Vauxhall spends 17 to 18 per cent of its media budget on posters, according to Patrick Dunster, advertising manager.

Steve Greensted, of Lowe Howard-Spink, Vauxhall's agency, says: "Twins gives us a creative advantage. It gives us the possibility of splitting the message in two." The impact was similar, he suggested, to two consecutive right-hand pages in a newspaper. "If it works, we'll use it again," he adds.

Side-by-side posters have already been used in the UK by Courage, the brewer. Experimentally last summer, and then to a wider extent at Christmas, Courage bought adjoining posters to deliver its anti-drink driving message of "keep them apart" (see below).

"We wanted to do something that was eye-catching and that was appropriate to the message," explains Mike Reynolds, Courage's public affairs director.

At Christmas, the Boase Massimi Pollitt-devised campaign appeared on paired hoardings on 200 sites for which Courage paid no premium.

Mills & Allen, which acknowledges Courage's pioneering role outside the Twins framework, argues that its hoardings will earn the premium because sites are more selective.

Simultaneously with Twins, it is launching a computer mapping system, again brought across the Channel, which will show agencies and clients the precise location and orientation of each hoarding in its 18,000-strong UK network.

But poster groups' quest for "added value" is far from over. Mills & Allen, for example, is working towards introducing a standard seven-day display period. For this flexibility, of course, it will expect a higher price.

BUSINESS LAW

Lessons for US from EC model

By Martin Coleman and Susan Hart

IT IS said that the importance of the single European market programme is illustrated by the fact that it will result in a market almost as large as the combined markets of the United States and Japan. This understates the position because the European market will be less restricted, less complex and less fragmented than the US market in a number of crucial areas including the financial services sector.

An example of the differing levels of regulation that will be enjoyed by European and American companies is provided by the banking and insurance sectors.

The EC Second Banking Directive provides that a credit institution, such as a bank or a building society, which is authorised in one member state shall be able to open branches and carry on a range of business in another member state without further authorisation. The directive covers not only traditional banking business but also a wide range of activities in the securities area.

Supervision by the regulatory authorities of member states in which the credit institution wishes to conduct business, other than the state in which the bank is authorised, is limited to supervision of liquidity and matters that can be justified on the grounds of the public good (broadly, conduct of business rules).

A similar regime is to be introduced by the Investment Services Directive to permit non-banking investment companies authorised in one member state to provide investment services throughout the Community.

The American banking system has been described as involving a myriad of lawmakers and regulators, with frequently overlapping jurisdictions and rules. In addition to a complex regulatory system, US banks are subject to federal law which severely restricts nationwide banking and securities activities.

A US bank is not currently permitted to conduct business through branches in other states except through a separately capitalised bank holding company subsidiary. Even then, the ability to establish a subsidiary depends on each state's laws regarding "foreign" banking subsidiaries.

This fragmentation has placed US banks at a competitive disadvantage globally since they are unable to draw on a nationwide deposit base. It may also have forced them into areas where lending was riskier, contributing to the present crisis.

Since the Glass-Steagall Act of 1933, US banks have been prohibited from issuing and underwriting securities. The banking regulators have chipped away at the restrictions but, thus far, several efforts to amend the Glass-Steagall Act have failed.

The worsening crisis for US banks at home and their loss of prominence internationally led the US Treasury this month to propose to Congress radical changes in the banking system.

The proposals includes removing barriers to interstate branching; allowing certain banks to conduct securities activities; simplifying the regulatory structure; and reforming the deposit insurance system.

The proposals face a stiff congressional battle, yet, even if implemented, they are limited. Each state will retain some control over entry and conduct of business for out-of-state banks. Bank entry into the securities business will be limited to highly capitalised banks. The reduction in the number of federal banking regulators will be an improvement, but other federal regulators, such as the Securities and Exchange Commission, will now be in the picture. Also, there will still be 50 state regulators with overlapping federal and state jurisdictions.

Investment companies in the US are regulated by both the federal and state governments. A number of states co-ordinate their registration with the federal government although requirements vary from state to state. The position also differs from that under the EC directives in that US companies that offer both investment advisory services and brokerage and dealing services are required to be separately authorised for each activity by both federal and state regulators.

The multiplicity of regulators (and therefore regulations) in the US means that it is considerably more expensive and burdensome for a bank or investment institution to establish a nationwide network of branches offering similar services than will be the case in Europe when the single market is in place.

In the non-life assurance field the Second Non-Life Assurance Directive provides that, in the case of large risks, an insurer authorised in one member state may write business in another member state subject only to notifying the regulatory authorities in the state in which the risk is located.

It is for the insurer's home state, and not the state in which the risk is underwritten, to exercise control over solvency, technical reserves and special policy conditions and tariffs.

In the case of risks other than large risks, the host states have a broader range of powers to regulate non-life business and there is a special regime that applies to motor liability insurance.

The European Commission has indicated its desire to see the market further liberalised so that, for example, it is as easy for an insurer in Cologne to conduct business in Scotland as it is in Bavaria.

The Second Life Assurance Directive seeks to liberalise the regime in relation to life assurance, although the need to protect consumers in this field means that there will still be a substantial degree of host state supervision. However, the directive will enable a consumer to seek life insurance from insurers which are established in member states other than that in which the consumer is resident.

Unlike banking and investment services, insurance in the US is regulated primarily at the state level. This anomaly is the result of historic confusion over whether insurance should be a federal or state matter. Insurance products with securities or pension features are subject to federal regulation while straight-line insurance products, such as life insurance or non-life large risk coverage, are governed exclusively by state law.

One insurance company may have to deal with 50 regulators. If the company wished to conduct insurance business in each state, it would have to apply for a licence in each individual state, and might also be required to obtain more than one licence within a single state; for example, one licence to carry on health and life insurance business, and another to carry on casualty insurance business. Intermediaries selling insurance also have to obtain a separate licence from each state for that activity.

Fears that the insurance industry may suffer the same malaise as banking have resulted in congressional hearings to inquire whether the role of the federal government in insurance regulation should be increased. However, even if federal regulation was to be implemented the states would certainly retain some authority.

The EC has recognised that an open regime permitting the cross-border transaction of business can only work effectively if member states are satisfied that a regulator in one state that is authorising companies to carry on business in other member states is observing minimum acceptable requirements.

In the banking sector, the Solvency Ratio and Own Funds directives set minimum standards of capital adequacy that will have to be met by all credit institutions and establish a uniform method of assessment of the ability of credit institutions to meet credit losses arising from customer default.

In the insurance field a proposed directive on the annual accounts of insurance undertakings will establish a framework for a common standard of accounting disclosure.

In the US, to alleviate the burden of complex regulatory structures faced by financial institutions, associations have been formed with representatives from each state to develop model laws in sectors such as banking, securities, and insurance. However, states are not required to adopt such model laws and there are always a number of non-conforming states.

In any event, the adoption of a model law does not obviate the need for an institution to obtain authorisation, where appropriate, in each state in which it wishes to conduct business. States may also enter into compacts with each other in areas of state regulation. Thus, with effect from last month, New York and California have a reciprocal agreement for mutual entry into their banking markets.

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PUBLIC WORKS LOAN BOARD RATES

Effective February 13.

Years	Quota loans repaid by EP†	Quota loans repaid At††	Quota loans repaid at maturity§	Non-quota loans A* repaid by EP†	Non-quota loans A* repaid At††	Non-quota loans A* repaid at maturity§
1			12			12¾
Over 1 up to 2	11⅞	11¾	11⅜	12⅞	12¾	12⅛
Over 2 up to 3	11½	11½	11	12½	12½	11¾
Over 3 up to 4	11¼	11⅛	10⅞	12¼	12⅛	11⅝
Over 4 up to 5	11⅛	11	10⅞	12⅛	12	11⅝
Over 5 up to 6	11	11	11	11½	11½	11½
Over 6 up to 7	10⅞	10⅞	11	11⅜	11⅜	11½
Over 7 up to 8	10⅞	10⅞	11	11⅜	11⅜	11½
Over 8 up to 9	10⅞	11	11⅛	11⅜	11½	11⅝
Over 9 up to 10	11	11	11⅛	11½	11½	11⅝
Over 10 up to 15	11	11⅛	11⅛	11½	11⅝	11⅝
Over 15 up to 25	11⅛	11	11	11⅝	11½	11½
Over 25	11	11	10⅞	11½	11½	11⅜

*Non-quota loans B are 1 per cent higher in each case than non-quota loans A. †Equal instalments of principal. †† Repayment by half-yearly *annuity (fixed equal half-yearly payments to include principal and* interest). § With half-yearly payments of interest only.

TECHNOLOGY

Cray's software formula

CRAY RESEARCH, the world's leading maker of supercomputers, has moved into applications software with a package designed to help chemists investigate molecular structures.

At the same time, it has taken what it describes as the biggest step so far towards "network supercomputing", integrating a supercomputer and a series of powerful workstations on a single network to run the new software.

The package, UniChem, represents a sharp change of emphasis for Cray, which is best known for its commitment to building the fastest possible computing hardware. When its latest machine, the YMP-16, is introduced later this year it will include models ranging in price from $300,000 to $30m. Its engineers are expert at developing systems software to control supercomputer operations, but applications software is a new departure for Cray.

To provide the necessary expert knowledge for the development of UniChem, Cray worked with researchers from a number of big chemical and pharmaceutical companies including Du Pont, Eli Lilly, Exxon, 3M and Monsanto.

UniChem is a spectacular example of the power of computers to create accurate, large-scale images on a screen. Chemists are using the package to model complex molecules including proteins and polymers.

UniChem comprises a set of mathematical programs used to calculate the properties of particular molecules and a second set of programs which use the results of the calculations to build up visualisations of the molecules and the way they interact.

The UniChem system decides which problems to assign to particular processors; heavy calculations, for example, are the responsibility of the supercomputer while managing the screen images is the job of the workstation.

Prices for UniChem start around $200,000. It will run on any Cray supercomputer using the Unicos operating system, Cray's version of Unix.

Alan Cane

David Fishlock examines a robot which tests high-temperature superconducting materials

A chemist's new friend

A robot chemist at GEC's Hirst Research Centre is making new materials to study as potential superconductors at the rate of about 1,000 a month. It is close to its first milestone of 10,000 materials. Cyril Hilsum, GEC's research director, jokes that the robot may then be given the task of writing the report on what it has found.

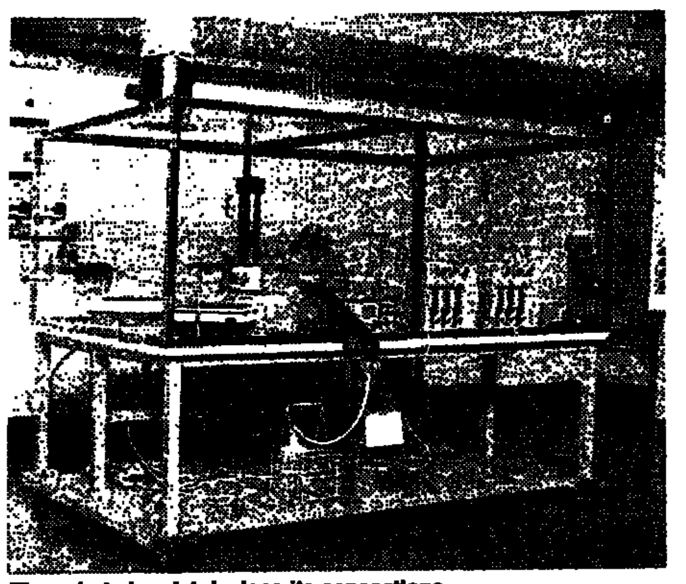
The robot, adapted by these scientists from one used commercially to make medicine tablets, has a key role in a collaborative European research project seeking high-temperature superconducting materials suitable for high-current applications, for example in cables, transformers, motors and generators. The problems these applications present are different from those of electronics, where films of the new superconducting ceramics have begun to find uses in some military circuits.

Six major European industrial groups are engaged in this Ecu 4.4m project: ABB Cables, Alcatel Cables (formerly Les Cables de Lyon), BICC, GEC-Marconi, Pirelli Industrie and Siemens. It involves a team of about 20, with half the cash coming from the EC. David Jacobson, manager of GEC's materials fabrication division, is project leader and chairman of the project's technical committee.

Five years ago two IBM scientists discovered superconductivity where previously it had not been expected, namely in a ceramic. It earned them the Nobel Prize for physics in 1987. They found it in a complex inorganic compound called lanthanum barium copper oxide.

Moreover, this ceramic was superconducting at 30 deg K (degrees above absolute zero) – significantly higher than any previous superconductor – and the discovery started a worldwide search for so-called "high-temperature superconductors". Similar ceramics proved to be superconducting at temperatures as high as 90 deg K. By 1989 superconductivity had been found in these oxides at temperatures as high as 125 deg K.

For the six partners, the critical temperature was 77 deg K – the boiling point of nitrogen. They agreed that if nitrogen could be used instead of helium – the refrigerant used today in such superconducting systems as magnetic resonance imaging for medical diagnosis – superconductivity could be economic for electrical power systems. Superconducting systems for the generation, transmission, switching, storage and use of electricity in motors might all become economically attractive.



The robot chemist devises its concoctions

The EC, for example, estimates that its member-states lose Ecu 2.5bn each year through power transmission losses, which in theory could be saved by employing superconductors with no electrical resistance losses.

But the engineering properties of ceramic superconductors are not good enough – mechanically, electrically, magnetically and in most other ways. Above all, the superconducting oxides are brittle. The idea is to search systematically among the myriad of possible recipes for better materials or trends that might yield a much better "engineering ceramic" superconductor.

The partners would like a ceramic that superconducts at room temperature – around 290 deg K – and therefore needs no refrigerant. Unlike the previous metallic superconductors, for which theory predicts a top limit of about 30 deg K, "with ceramics we have no idea what the limiting temperature is", Jacobson says.

It took 18 months to negotiate the industrial collaboration, Hilsum says. The partners agreed on a two-part programme that involved screening 10,000 different recipes, and simultaneously exploring how they might use the ceramic if a recipe yielded a promising combination of electrical and mechanical properties. "It's a totally new area of materials science which we have to learn," says Hilsum. "We've got to forget everything we learned about semiconductors."

The robot chemist is programmed to make minuscule tablets of ceramic weighing about 1 milligram, for examination by X-ray diffraction, a kind of fingerprinting which establishes where each specimen resides in the grand plan. Ceramics of interest are chemically complex but all have a layered structure in which conducting and insulating bands alternate like a zebra's stripes.

The robot makes its tablets by organo-metallic reactions developed by GEC chemists, a procedure chosen so that the prescribed mixture always starts as a solution, which can be boiled to leave a solid, then cooked into a ceramic. It mixes solutions of the various elements in prescribed proportions, and drips a fixed volume on to a disc of silver on a gold-plated hotplate. The rest of the solution is stored.

The deposit left on the silver disc when this solution evaporates is then fired at 900 deg C to leave a disc of ceramic suitable as an X-ray sample and for magnetic measurements. This initial screening picks up less than 1 per cent of superconduction in any sample. The small size of the samples has encouraged the scientists to explore quite expensive materials – even precious metals.

The robot has permuted some 16 different elements in making more than 8,000 samples, and is adding another 80 samples a day. "Ideally, we're looking for new superconducting phases but en route we're looking for patterns," says Jacobson.

Patterns may yield fresh insight into the way ceramics superconduct. So far about five specimens have proved significantly superconducting, although none dramatically so. "But we believe we have learned enough to improve the known superconducting phases in ceramics."

Under another part of the programme, the partners have already begun to investigate engineering designs using superconducting oxides, for cables particularly. The idea is to sharpen the specification for a useful material and show where more research could most profitably be applied.

One crucial property is an ability to carry large current densities. In general, the superconducting oxides appear to have characteristics that limit their current-carrying capacity unless they can be made with large grains that are aligned in the direction current must flow, a process the scientists call "texturing".

The French Atomic Energy Commission's research centre at Saclay, and materials scientists with Liverpool University and the University of Liege, are exploring several ways of texturing superconducting oxides. They include using powerful magnetic fields to try to align particles of oxide as they precipitate from solution or crystallise from vapour.

Chemical vapour deposition of these oxides has produced material of very high quality for the partnership, but Jacobson stresses that it is still at the stage of pre-competitive research. "There's a lot of legwork to be done before the science becomes a useable technology."

A computer program on the Dutch assembly line

In less than two years Europe's single market will open for business. US computer companies, realising the opportunities the market will present, have been building or expanding their manufacturing facilities in Britain. The Netherlands, however, is nipping vigorously at its heels in the race to become Europe's leading assembly and distribution centre.

In the past few years, US personal computer companies such as Compaq, Apple, Seagate and Sequent have opened up new distribution operations in the Netherlands, while Taiwanese and Korean firms such as Acer and Graphite have established plans for assembly and distribution. Closeness to air links via Amsterdam's Schipol airport, the Rotterdam seaport and major European road and rail networks are cited by many as the chief attraction.

The move by Compaq Computer Corporation earlier this month to invest more than $57m (£29m) in building an international distribution centre in Gorinchem, The Netherlands, is a typical example of the trend.

Compaq is purchasing a 76-acre site in Gorinchem on which to construct the new facility. When fully operational in 1993, the distribution centre will employ more than 150 people.

And it will not just be a box-shifting operation. In common with a number of the other high-tech companies that have recently moved to The Netherlands, Compaq will equip the Gorinchem facility with state-of-the-art information management systems for networked order processing and despatch among the company's 17 European and international subsidiaries. With worldwide production and distribution information on line, each subsidiary will theoretically be able to respond instantly to a dealer's supply enquiry.

The Gorinchem distribution centre is supposed to streamline the company's international logistics system, by providing a single focal point for distribution of PC products and peripherals from its manufacturing plants in Erskine, Scotland; Houston, Texas and Singapore, and from the company's third-party suppliers.

The distribution centre will handle the full line of Compaq products, shipping directly to authorised Compaq dealers in the UK and Europe, the Middle East and Africa. Orders from Asia/Pacific dealers will continue to be shipped via Compaq subsidiaries in Australia, New Zealand, Singapore and Hong Kong.

"This state-of-the-art distribution centre, in conjunction with Compaq's world-class manufacturing facilities, will allow us to be more responsive to our customers' need for timely deliveries of our comprehensive range of PC products," said Eckhard Pfeiffer, president of Compaq's European and international operations.

Waiting for what 1992 blows in

He adds that Gorinchem, in the south of The Netherlands, is at the heart of the European communications network. The selection of the Gorinchem site was apparently made with the assistance and support of the Netherlands Foreign Investment Agency and the Community of Gorinchem.

The move comes only five months after Apple Computer – which has a major manufacturing facility in Cork, Ireland – announced that it, too, would build a distribution facility in the Netherlands.

Last summer Apple Europe unveiled plans to build a new $45m distribution and localisation centre in Apeldoorn, the Netherlands, which will serve as its northern European operations centre. The centre will be used for the distribution of spare parts and finished goods for Europe as well as the final configuration and localisation of Apple products.

Residents of Apeldoorn, however, may have been understandably nervous about another computer company moving to town as Dutch electronics giant Philips NV had announced only two weeks previous to the Apple announcement that it would make redundant 210 of the 700 people at its Dutch computer division in Apeldoorn.

The Dutch business community may find itself consoled, however, by the fact that it is not only US computer companies taking notice of its attractions. Taiwanese PC-builder Acer Corp, which recorded a turnover of $1bn last year, has indicated in recent months its intention to start manufacturing in Europe this year.

According to reports in Computergram International, a leading computer industry journal, the site will most likely be in The Netherlands – possibly near the German border – because of its central location in relation to the rest of Europe, and good transport links.

Computergram reports that the operation will start gradually, with assembly being carried out at the company's existing Eindhoven plant. A manufacturing capability of 10,000 units a month is targeted for the first year.

Acer founder Stan Shih is desperate to change the traditional image of Taiwanese manufacturers as sweat-shop-owning, fly-by-night box-shifters with no ambition other than to undercut the competition. Building a European operation – and becoming a good EC "corporate citizen" – is part of that process.

He says this has spurred the company to employ more than 700 engineers in its research and development division and spend between five to six per cent of its annual revenues in R&D. "Our research and development spend is on a par with many mainframe companies and is unheard of in the PC market," Shih suggests. He does not rule out development of European R&D facilities as part of the company's future expansion here.

Geof Wheelwright

The Corn is Green

GREENWICH THEATRE

Emlyn Williams' autobiographical drama of mining boyo made good comes across, in Matthew Francis' appallingly jolly revival as soap opera almost in the Catherine Cookson league of affectionate enshrinement of working-class mettle. That one should make the comparison at all shows how badly it has aged. For in its time (it was premiered in 1938 with Sybil Thorndyke and Williams himself) it must have been rather daring, with its message that education is all that lies between the smart miner and the statesman, forget the asinine land-owning class.

The big difference between Cookson and Williams is that local colour is central to her melodramas, whereas he merely employs it as couching for his story, which is the relationship between a bossy schoolmarm and the rough diamond she discovers down a Welsh coalmine. The formidable Miss Moffat – a reflection on Williams' own Miss Cooke – has entered the nation's soul with her sturdy championship of grammar school values, and their vindication in the person of Emlyn Williams himself.

If only he had focussed more unerringly on that relationship, Williams might have protected himself from nonsense such as we have here: from jolly Welshmen who signal their occupation by walking around with boot-blackened faces, and Cockneys who speak a phony vernacular unrivalled since Andrey Hepburn set her cap at Eliza Doolittle.

One can see why Francis should have opted to direct the play as a period curiosity, but to do so seems to contradict his programme-note assertion that he regards it as a great British classic. His most serious mistake is to cast Patricia Routledge as Miss Moffat, since the hearty persona of this distinguished actress strikes altogether the wrong note of eccentricity. She is fine when she is spanking mischievous miners or bullying the local squire (a likeable buffoon from Arthur Cox), but the subsequent passion that she devotes to her young protege and the ruses she employs to safeguard his prospects seem all in a day's bike ride, rather than the desperate strategies of an old maid who has focussed all her emotional and intellectual energy on one boy.

Her willingness to forego conventional morality in pursuit of her goal – to the extent of bribing the mother of Morgan's child and even adopting the child itself – gives body to her character. But here again, the play shows its age. Times and values have changed to the extent that it is no longer acceptable to present a man with a choice between his career and his paternal responsibilities and allow him to choose the former without a blemish on his conscience. Brendan O'Hea, who is really rather convincing as Morgan, confronts this problem, as he does his Oxford entrance paper, with an extra flare of his remarkable nostrils.

The vulgar but available Bessy Watty, twisting her curls around a forefinger, is an embarrassment today that Caroline Gruber confronts with a brave impertinence; as is her Salvationist mother, whom Paula Jacobs endows with a swinging bum-strut that becomes something of a running gag. Desperate measures in considerable adversity.

Claire Armitstead

CINEMA

Hammett without the Prince

MILLER'S CROSSING
Joel Coen

THE FIELD
Jim Sheridan

TO SLEEP WITH ANGER
Charles Burnett

I HIRED A CONTRACT KILLER
Aki Kaurismaki

SHOCK CORRIDOR
and
NAKED KISS
Sam Fuller

"You're honest," says one gangster to another in *Miller's Crossing*. "That's something we can't get enough of in this business."

Honour among thieves is one thing. Honesty among Prohibition-era hoodlums and killers is another. And for the cinema it is an even better joke. *Miller's Crossing*, the new film from Joel and Ethan Coen, the writing-directing brothers who made *Blood Simple* and *Raising Arizona*, has a fine moral madness. Shot in velvet-dark colours, it crackles with wit and visual invention. And though the plot could be simpler to follow – as mobsters Gabriel Byrne, Albert Finney and John Turturro perform their scorpion dance of revenge and counter-revenge, while molls look on and dead men return to life – the film has such rhythmic and harmonic mastery that it no more needs a narrative "programme" than does a great symphony.

The *film noir* and pulp fiction models are clear. The Coens must have sat through many a re-viewing of Huston's *The Maltese Falcon*: they invoke the shadow-strewn rooms and two-timing women, they have Albert Finney as a jowly, rumbustious Sidney Greenstreet twin. And they must have read till the pages fell out Dashiell Hammett's *Red Harvest*, with its blood-related tale of gangsters cunningly set up to knock each other off.

But the lethal charm of *Miller's Crossing* is the way it turns the gangster world into a wilderness without a hero. There is no Sam Spade to offer hardboiled moral guidance as bullets fly and dames scream: this is Hammett without the prince. The weightless, windblown characters are defined by the surreal visual leitmotif of a hat blowing through a forest. And our only, dubious identification figure is Gabriel Byrne's Tom, a soft-spoken Irish hitman whose one moment of finer feeling – he spares the bullet to a gibbering victim (John Turturro) in the woods, who later returns to haunt and blackmail him – is outweighed by myriad betrayals. He sleeps with boss Finney's girl (Marcia Gay Harden). He works for Finney's enemies, including the resplendently vile Caspar, played by Jon Polito. And he even may have had a hand in the attempt on Finney's life.

This last scene is *primus inter pares* among the film's set-pieces. Laying "Danny Boy" over the soundtrack with voluptuous incongruity, director Joel Coen (Ethan co-wrote and produced) cross-cuts between hunter and hunted. He creates a filmic fugue out of the stalking killers, the wakened Finney, the boldly nonchalant exit through the bedroom window, the blasting machine-guns, the unscathed saunter up the street, the soaring, idiot lyricism of the Irish song.

If all art aspires to the condition of music, *Miller's Crossing* aspires and attains. And like its rival masterpiece among modern gangster films – Scorsese's *GoodFellas* – it pays its subject's moral complexity the tribute of presenting it rich and fully-tangled, not unpicked and editorialised for the slow-witted.

★

There is no ladling of "Danny Boy" over the soundtrack of *The Field*. But this new film from writer-director Jim Sheridan of *My Left Foot* could not be more Irish if it had blarney-stones for teeth and shamrocks growing from its ears. Richard Harris, a human mountain snowcapped with white hair, rumbles through the movie as if about to deliver an avalanche. A vatic tenant farmer, circa 1930, he is angry when newly arrived Irish-American businessman Tom Berenger crashes the village land auction and snaps up the field Harris rents and has saved to buy.

It is a lovely field, all green and sheep-scattered, and Mr B wants to build a road over it. "He intends to pour concrete on the green grass," keens Harris. "That's a mortal sin." Faith, it is. Meanwhile village idiot John Hurt looks on, wondering why he has been given the same role John Mills had in *Ryan's Daughter*. Harris's son Sean Bean falls over a cliff when his Gadarene cows and sheep stampede; and at climax-time Harris and Berenger slug it out against a primal lake-with-waterfall backdrop. Film-maker Sheridan's mythic aims in this movie get more Wagnerian (or Arthurian) by the minute.

But I loved it. After last week's catatonic Emerald Isle opus *December Bride*, *The Field* restores our faith in Ireland's ability to turn simple tales into stormy, ragged anthems to the national character. If the moments of elemental passion in *My Left Foot* were lamed by too much bio-pic reverence, *The Field*, based on a 1962 play by John B Keane, has a runaway yarn-spinning relish. Moments of poetic overreaching are part of the charm: shots like that of Harris with arms outstretched Christ-like in a car's headlights while luminous rain-needles shower around him; or his Mosaic posture of defiance near the end, framed against the waterfall as if it were the Red Sea in the very act of parting.

★

Charles Burnett's *To Sleep With Anger*, confirms that whenever movies have a central character called Harry, there is trouble. The trouble with this Harry, played by Danny Glover (the black half of *Lethal Weapon*), is that he has weird powers. Passing as a friend from the Deep South, he throws himself on the hospitality of a family living in suburban Los Angeles. Soon there is a whole lotta black magic going on. Strange creatures appear in the living-room; primitive charms turn nasty; fiery hallucinations lap characters' ankles; and spilt marbles can cause a heart attack.

The film moves slowly, but then so do the speech patterns of a hypnotist. It is Burnett's purpose to lull us into a false security first, so that we never notice the point when a racially "black" comedy turns into a stylistically "black" comedy. The snag with so sedative an approach is that the film seems sitcom-plain at times: like an episode of *The Cosby Show* waiting for a delivery of surrealism. But when the delivery arrives, *To Sleep With Anger* becomes a sophisticated and sweetly shivery ghost story.

★

Human beings have long struggled to understand the concept of eternity. But sometimes a film conveys it better than a dictionary could. Even at its modest 80 minutes *I Hired A Contract Killer*, made in Britain by Finnish writer-director Aki Kaurismaki (*Ariel*, *The Match Factory Girl*), may be the most long-winded, posturing, empty-headed movie I have ever seen.

It has a sardonic plot idea Roman Polanski might be proud of. Sacked French-immigrant office clerk Jean-Pierre Leaud wants to die, so he hires someone (Kenneth Colley) to kill him. But then he has second thoughts and must try to evade him.

Unfortunately, this initial idea is the last one Kaurismaki has. Thereafter the film staggers deep into benighted inconsequence as the killer stalks Leaud, the fugitive Leaud bumps into the flimsy eccentrics masquerading as supporting characters (flower-selling girlfriend Margi Clarke, hamburger vendor Serge Reggiani) and the dialogue runs to cod profundities like "The working class has no fatherland".

The one, perhaps two, moments of mild wit – a "Gone to pub" note left by considerate hero for hit-man, a bank robbery enmeshing Leaud in erroneous guilt – emphasise the vacuum all around. If, as I charitably assume, the film is designed as a satiric homage to yesterday's European art-movie minimalism (Bresson, Antonioni), the joke is past its sell-by date and never reaches its laugh-by date.

★

On the subject of dates, two of them dear to cinephiles are 1963 and 1964. In these years Sam Fuller, B-movie director extraordinary, made *Shock Corridor* and *The Naked Kiss*: two films, revived at the Everyman from next week, that prove the old saw that genius and madness are near allied. In the first, an investigative reporter (Peter Breck) has himself committed to a mental asylum in the line of research. In the second, a prostitute (Constance Towers) who has murdered a man flees the law but finds nowhere to hide.

Fuller directs both films as if running to catch a bus in Hell. The pace is furious, the emotions are hectic and headlong, and flames of genius lick at the sides of the screen. Two wonderful collector's pieces: collect them now.

Nigel Andrews

Lethal charm: Albert Finney in 'Miller's Crossing'

The King and I

SADLER'S WELLS THEATRE

In the midst of the foul weather, war and recession, *The King and I* was revived at Sadler's Wells on Tuesday evening. The programme even carries three separate advertisements for airlines including Pan Am – "9 Times a Day to the USA", almost another sign of things past.

One went determined to enjoy it. There may not be all that many beacons in the London theatre in the next few months. Yet the outcome was only partly satisfactory. This is not just because Susan Hampshire, playing Anna, the English schoolteacher, acts, moves and looks much better than she sings: it was ambitious of her to try.

There is something deeper. It is that American musicals like this are so much better on the big screen than on the stage. They need a pace, a professionalism, a no expenses barred approach that only the movie can give.

The King and I has also come to seem curiously old-fashioned as musicals go. It lacks the subtlety of a Sondheim or the wit of *My Fair Lady*. It is a bit of a sentimental tear-jerker with a few good songs thrown in.

Most of those songs belong to Anna. Ms Hampshire lacks the command to do them full justice. Sadler's Wells, remember, is a stage where we have been accustomed to hearing opera. It would take a real singing star to fill it with "Hello, Young Lovers". Similarly "Shall We Dance?" requires mega-treatment. At its best, it should make the whole theatre take off. Think again what has been done with it on screen. Here it fails to reach that level.

There are compensations, of course, some of them in Ms Hampshire's performance. Her heart is clearly in it. She looks lovely. She even manages to play up the feeling in the story as the King of Siam is on his death-bed.

The King, played by the Japanese actor Koshiro Matsumoto IX, is a compensation in his own right. It must be hard to take over a role almost identified with Yul Brynner. Koshiro Matsumoto has hair on his head but not on his chest, which he bares regally.

The production, directed by James Hammerstein and choreographed by Yuriko, is scheduled to run for eight weeks and I hope that I have not been too harsh on it. It just needs that extra bit of flair which could still come. Yesterday it seemed a shade under-rehearsed.

Malcolm Rutherford

Alastair Muir

Koshiro Matsumoto and Susan Hampshire

Shiva Nova

PURCELL ROOM

Sitar and tabla join company with a Western trio of flute, cello and piano in the work of Shiva Nova, a contemporary music group led by the young Indian composer Priti Paintal, which is mounting a series of five cross-cultural concerts at various London venues over the next few months. They began their Eurasian explorations at the Purcell Room on Tuesday night with a programme featuring two world premières (world premières of "world music"): Priti Paintal's own *Black and White Songs* and her teacher Anthony Gilbert's *Upstream River Rewa*.

Paintal's songs, three settings of poems for young people by black and white South African writers, were the most striking music of the evening: product of a fresh vigorous imagination and managing to combine directness of utterance with subtlety of thought and craftsmanship. The negro spiritual was a significant background presence; and the songs could, at their catchier moments, almost be taken for pop music; but a strong emotional undercurrent was always to be felt, coming to the surface in meditative solos by cello and sitar; and the work had something of the passionate forthrightness of Leonard Bernstein's *Songfest*. The two vocal parts were taken by mezzo-soprano Hyacinth Nicholls and tenor Mike Henry and came across as splendidly lively and resourceful.

Gilbert's piece called for an Indian narrator in addition to the quintet. Vayu Naidu, in traditional dress and using stylised hand-movements, told us traditional stories, while sitar and piano vamped quietly in the background. The instrumental sections – delicate, refined, languourous, and in one case, hynotically repetitive – boasted a profound fusion of Indian and occidental techniques; but the work was rather long and did not sustain my interest.

The rest of the programme comprised Daryl Runswick's gently rambling *Dialectic 1* which synthesiser replaced piano in the ensemble; David Kosviner's *For Nancy*, an inventive caprice for flute (Nancy Ruffer), cello and piano; three Afro-Caribbean songs by Edric Conner, amusingly presented by Hyacinth Nicholls; and Messiaen's Eurasian blockbuster, *Canteyodjaya*, given a hefty account by the group's pianist Clive Williamson. Performances throughout the evening were spirited and highly accomplished.

Paul Driver

Flying Ashes

ICA

Epistolary theatre, like the epistolary novel, has a long and distinguished career. One has only to look to *84 Charing Cross Road* to see how broad its appeal can be, despite the obvious dramatic limitations of communication involving people who seldom, or even never, meet. Exchange Productions, under the direction of Sarah le Brocq, address this problem in its most poignant and extreme form, taking their text from letters smuggled out of of Soviet gulags by women prisoners.

The play is sculpted by Tony Craze from a collection of those letters, published by Julia Voznesenskaya as *Letters of Love*, into a moving picture of life as it is lived by women who somehow manage to survive the daily round of discomfort and brutality with their imaginations and emotions intact. "The problem of a piece of soap troubles me far more than peace and socialism," says one of them, sadly, speaking for them all.

Le Brocq has chosen to present the letters in a patchwork of issues and personal stories which builds up around a jagged Constructivist set, designed by Andrew Williamson, that is hammered and bolted together by the prisoners as they speak, jutting into a tower on which one of them weeps after the slow, almost ecstatic murder of a raping jailer.

For those who like their theatre poetic, this is a beautiful and assured piece of work which, in the best traditions of the ICA, marries construction, music and performance: the throb of trains and the wistful strings of Mark Dyson's score give depth and texture to letters some of which are spoken by the three actresses and others which arch, from tape-recordings, over their heads. The steel of their surroundings is as hard, brutal and male as their words are tender and female. Alright, so the images themselves – trains and steel – are not wholly original in the representation of Soviet suffering, but they are as eloquently composed as some of the letters they illustrate.

Claire Armitstead

INTERNATIONAL
ARTS GUIDE
TODAY'S EVENTS

■ BARCELONA

Gran Teatre del Liceu 21.00 Uwe Mund conducts Stravinsky's Symphony of Psalms and Bartok's Duke Bluebeard's Castle, with Klara Takacs and Kolos Kovats. Also tomorrow (412 1466)

■ BERLIN

Staatsoper unter den Linden 19.00 La traviata. Tomorrow: Peter Schreier conducts Le nozze di Figaro. Sun: Magdalena Hajossyova sings the Marschallin in Der Rosenkavalier conducted by Heinz Fricke (2004 762)
Deutsche Oper 19.00 Die Zauberflöte. Tomorrow and Sun: Entführung. Sat: Peter Seiffert sings Lohengrin (3410 249)
Schauspielhaus 20.00 Carlo Maria Giulini conducts Berlin Philharmonic Orchestra in all-Mozart programme (2614 383)
Komische Oper 19.00 Swan Lake choreographed by Tom Schilling (2292 555)

■ BRUSSELS

Palais des Beaux Arts 20.00 Reinhard Goebel directs Musica Antiqua Cologne in music by Venturini and Handel. Tomorrow: Gerhard Oppitz plays Rakhmaninov's Rhapsody on a theme of Paganini with Royal Flanders Philharmonic Orchestra (507 8200)
Monnaie 20.00 Adolf Dresen's production of Jenufa with Linda Plech in title role and Anja Silja as Kostelnicka. Also Sun at 15.00 (219 6341)

■ CHICAGO

Orchestra Hall 20.00 Pinchas Zukerman is conductor and soloist with Chicago Symphony Orchestra in a programme including Hindemith's Trauermusik and Elgar's Introduction and Allegro for Strings. Also tomorrow at 13.30 and Sat at 20.00 (435 6666)

■ COLOGNE

Philharmonie 20.00 Daniel Barenboim conducts Dresden Staatskapelle. Sun at 11.00: Raymond Leppard conducts Gurzenich Orchestra (2801)
Opernhaus 19.30 Tanz-Forum production of Prokofiev's Romeo and Juliet choreographed by Jochen Ulrich, also Sun. Tomorrow: Madama Butterfly (221 8400)

■ FRANKFURT

Jahrhunderthalle Hoechst 20.00 Paris Opera Ballet in Don Quichotte, choreographed by Rudolf Nureyev with music by Ludwig Minkus. Also tomorrow (3601 240)

■ GOTHENBURG

Konserthus 19.30 Neeme Jarvi conducts Gothenburg Symphony Orchestra in music by Richard Strauss, Sibelius and Rimsky-Korsakov. Also tomorrow at 18.00 (167000)

■ HAMBURG

Staatsoper 19.00 Catherine Malfitano sings Madama Butterfly. Tomorrow: Werther. Sat: Lady Macbeth of Mtsensk. Sun: Karita Mattila sings Tatiana in Eugene Onegin (351555)
Deutsches Schauspielhaus 19.30 Romeo and Juliet directed by Michael Bogdanov, also tomorrow (248713)

■ LONDON

DANCE
Covent Garden 19.30 Altynai Asylmuratova dances Manon, choreographed by Kenneth MacMillan, music by Massenet. Tomorrow: Triple bill including Kenneth MacMillan's new ballet Winter Dreams (240 1066)
MUSIC
Coliseum 19.00 Nancy Gustafson sings title role in David Pountney's staging of Rusalka. Tomorrow: Bartok and Stravinsky double-bill. Sat: The Turn of the Screw (836 3161)
Royal Festival Hall 19.30 Libor Pesek conducts Philharmonia in Martinu and Dvorak, with Dmitry Sitkovetsky soloist in Bartok's First Violin Concerto. Tomorrow: Gunter Wand conducts BBC Symphony Orchestra. Sat: Pesek conducts Ravel, Prokofiev and Beethoven with the Philharmonia (928 8800)
Barbican Centre 19.45 Valentine's Day concert by London Concert Orchestra (638 8891)
THEATRE
This week's shows include The King and I starring Susan Hampshire (Sadler's Wells), Sharman Macdonald's new play All Things Nice (Royal Court), Friedrich Dürrenmatt's The Visit (National) and Pinter's The Homecoming directed by Peter Hall, with a cast led by Warren Mitchell and Cherie Lunghi (Comedy). Phone Theatreline: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962

■ MUNICH

MUSIC
Staatsoper 19.30 Madama Butterfly. Tomorrow: Das Rheingold. Sun: Die Walküre with Behrens and Morris, conducted by Sawallisch (221316)
Philharmonie 20.00 Mariss Jansons conducts Bavarian Radio Symphony Orchestra in Shostakovich's Fifth Symphony, with Shira Rabin soloist in Dvorak's Violin Concerto. (48098 614)
THEATRE
Prinzregententheater 19.30 Mein Kampf by George Tabori. Sat: Moliere's L'Ecole des Femmes (225754)

■ NEW YORK

MUSIC
Avery Fisher Hall 20.00 Zubin Mehta conducts New York Philharmonic in world premiere of Steven Mercurio's For Lost Loved, plus Maria Ewing in Four Last Songs. (874 2424)
Metropolitan Opera 20.00 Die Zauberflöte with Kathleen Battle, Luciana Serra, Francisco Araiza and Heinz Zednik. Tomorrow: Luisa Miller with Pavarotti. (362 6000)
DANCE
New York State Theatre 20.00 New York City Ballet in Coppelia. Tomorrow's programme includes Balanchine's Symphony in C. Sun: Mother Goose and three other ballets (870 5570)
THEATRE
This week's shows include Shogun: The Musical, which boasts an earthquake among a string of spectacular effects (Marquis), Assassins, new musical by Stephen Sondheim (Playwights Horizons) and Six Degrees of Separation, new play by John Guare (Lincoln Center). Ticketron (246 0102) answers inquiries and sells tickets

■ PARIS

DANCE
Palais Garnier 19.30 Bolshoi Ballet in Hommage a Petipa. (4742 5371)
MUSIC
Théâtre des Champs-Elysées 20.30 Georges Prêtre conducts Honegger's Le Roi David with Orchestre National de France. Tomorrow, Sat and Sun: Julia Migenes Show (4720 3637)
Salle Pleyel 20.30 John McLaughlin and Paco de Lucia play guitar concertos with Orchestre de Paris conducted by Semyon Bychkov. Also tomorrow (4563 0796)
THEATRE
Comédie Française 20.30 Beaumarchais' Le mariage de Figaro. (4366 4360)

■ STOCKHOLM

Konserthus 19.30 Andrew Davis conducts Stockholm Philharmonic Orchestra in music by Schoenberg and Dvorak. Also Sat at 15.00 (244130)
Royal Opera 19.00 John Neumeier's ballet A Midsummer Night's Dream, with music by Mendelssohn and Ligeti. Tomorrow: Tosca (248240)

■ VIENNA

Staatsoper 19.00 Fidelio with Sabine Hass, Sona Ghazarian and Josef Protschka. Tomorrow: Arabella. Sat: Manon. Sun: Trovatore (51444 2960)
Volksoper 19.00 Die Entführung aus dem Serail. Sat: Wiener Blut. Sun: Barber of Seville (51444 3318)
Musikverein 19.30 Alexander Rahbari conducts Vienna Symphony Orchestra in Shostakovich's Fifth Symphony, plus music by Wellesz and Stravinsky. Also Sat (505 8190)

■ WASHINGTON

Kennedy Center Concert Hall 19.00 Mstislav Rostropovich conducts National Symphony Orchestra in symphonies by Haydn and Bruckner, also Sat and next Tues. Tomorrow: Salzburg Mozarteum Orchestra plays Mozart (467 4600)

■ ZURICH

Opernhaus 19.30 Nikolaus Harnoncourt conducts Der Zigeunerbaron. Tomorrow: Elektra. Sun: Tosca (251 0909)
Tonhalle 20.15 Murray Perahia plays Beethoven's Piano Concerto No 5 with the Tonhalle Orchestra conducted by Hiroshi Wakasugi (201 1580)
Schauspielhaus 20.00 Moliere's Le Misanthrope directed by Rudolf Noelte. Tomorrow, Sat and Sun: Arthur Schnitzler's Professor Bernhardi (251 1111)

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Thursday February 14 1991

A justified interest cut

SPAIN'S willingness to cut its short-term rate of interest has put the fig-leaf of international respectability over Mr Norman Lamont's desire to lower base rate by half a percentage point. Nevertheless, the cut looks like a concession to domestic political pressure. But lower interest rates are bound to look like such a concession, given both the state of the British economy and the election timetable. The government must worry about appearances; it should not be paralysed by them.

An interesting question is what the Bundesbank might have done if it had direct responsibility for – rather than indirect authority over – the UK economy. Its first reaction would be horror at the pace of wage increases. But, upon examination, it would agree with the UK government that the worst of the inflationary pressure is in the past.

The Bundesbank would be particularly impressed by the precipitous decline in rates of monetary growth. It would note that narrow money, a relatively reliable coincident indicator, stopped growing in the last quarter of last year. Meanwhile, the annual rate of growth of broad money, the Bundesbank's principal current target, has fallen from close to 20 per cent in early 1990 to 7 per cent in the last quarter of 1990. The latter is a rate with which the Bundesbank itself could live. Furthermore, the very speed of the decline would give any prudent central bank pause. It would expect trouble.

Room for manoeuvre

The unemployment data, to be released today, and the inflation data, to be released tomorrow, will probably confirm that cuts in interest rate are justified. Modest cuts have, indeed, been expected in the market for some time, with more to come.

Nevertheless, for a currency in the ERM, interest rates cannot be set on domestic economic grounds alone. They must be determined with an eye to the exchange rate as well. Happily, there is some room for manoeuvre. Sterling may be in the lower half of its band, but it is a wide band. Furthermore, there have been very recent reductions in money market interest rates in both France and Germany.

Nonetheless, sterling's presence in the ERM puts the government's credibility on centre stage. Credibility is an economic asset that is gained by political behaviour. The reduction in base rates at the time of ERM entry, for example, may well have been justifiable on domestic economic grounds, but it impaired credibility and has made subsequent reductions in interest rates more difficult. Can this be argued against the present cut as well?

Producer prices

It is peculiar that the cut came so soon after the increase of 1.2 per cent in producer prices announced on Monday, particularly when the government has insisted that lower interest rates will follow a decline in inflation. It is worrying that it came just before Mr Norman Lamont had to defend government economic policy in the House of Commons. It is unfortunate that it was announced on the day that the policy came under attack from Sir Alan Walters *et al* in a letter to The Times.

One must not be too harsh. Any cut in interest rates is likely to look opportunistic. What matters is the market reaction. So far at least it is benign. Investors may even believe that lower interest rates will make maintenance of the ERM commitment easier, not more difficult, because it will make the consequence of that commitment less politically unpalatable. Furthermore, if the floor itself has credibility, interest rates can perhaps be lower just because sterling is approaching it.

Nevertheless, a base rate cut of half a percentage point, while welcome, will be of nugatory benefit to the domestic economy. The government will want – indeed need – to make further cuts. But each percentage point cut in base rates reduces the interest rate differential *vis-à-vis* the D-Mark by more than a fifth. The conflict between domestic pressures and the exchange rate commitment is unlikely to go away soon. Whether it likes it or not, the government will have many occasions to show its mettle in coming months.

Europe's farm costs rise

THE NEW SCARE over the cost of the Common Agricultural Policy provides both an appropriate and a predictable backdrop to the longer-term discussions on farm reform now going on in Brussels.

Only weeks into the new year, the Commission has forecast that the CAP budget agreed last December will be overshot by Ecu1.9bn. Spending is set to soar by a record Ecu7.9bn over 1990, to Ecu33bn. Without quick action, the cash-limits agreed in 1988 will be broken for the first time.

The budget crisis should provide a spur to discussion of long-term reforms proposed by Mr Ray MacSharry, farm commissioner, but care must be taken to ensure that it does not distort their focus. Balancing the books is not the same as solving the economic problems created by the CAP.

Previous attempts to reform the CAP have always been conceived out of the need to curb budgetary outlays. In seeking to limit the pain, the EC has traditionally made the mistake of veering not towards the market, but away from it, towards supply management. This has an immediate impact on the budget. It reduces the surplus that the Commission has to buy, store, and eventually sell at a loss. It is also more attractive to farmers than cutting support prices, because quotas are easier to increase again when business returns to "normal". But supply restraints do not constitute real reform.

There is only one way to end over-production, curb market support and promote efficiency in EC farming. That is to reduce, and ultimately eliminate, the difference between administered prices and world market prices.

Burden on consumers

Cutting production may reduce budgetary outlays, but it would leave the consumer carrying a large share of the burden in the form of high prices. Because it requires the maintenance of barriers against imports, it would also fail to impress the other countries with whom the EC is trying to negotiate in the Uruguay Round.

These defects of supply management have to be considered in planning long-term changes to the CAP. Reform should not be a response to a chronic budgetary problem. It is needed to remove costly economic distortion, secure improved conditions on world markets, and to promote much delayed adjustment in the European farm sector.

Qualified welcome

The MacSharry proposals, which again came under vehement attack this week from Mr John Gummer, UK farm minister, deserve a qualified welcome. They envisage steep price cuts for cereals of 47 per cent and more modest cuts of 15 per cent for beef and 10 per cent for dairy products. Small farmers would be fully compensated for their loss of income. Large farmers would receive no compensation for lower cereal prices unless they agreed to set land aside from production. They would also have to bear the full weight of a 5 per cent cut in milk quotas.

Mr Gummer argues that this approach would discriminate against Britain's efficient larger farmers. This is true only to the extent that it involves a large measure of production-related controls and supports. An ideal reform, which removed such controls and introduced a market-driven price regime, would favour the efficient farmer.

Political reality dictates that reform must be accompanied by compensation for inefficient small farmers who have no hope of adjusting. Despite the drain on the farm budget, such support would be acceptable, provided it is transitional and not related to production. More work needs to be done, in addition, on how to relate income support to the preservation of the environment.

Even the MacSharry proposals would lead to a short-run increase in budgetary outlays. But the income support could be cash-limited and made available only to those currently farming the land, not in perpetuity to their successors. With these conditions met, a temporary rise in farm spending would not matter. In stark contrast with the situation today, it would not be a sign of a problem looming, but of a problem at last solved.

Victims of their own ambitions

Apart from the Gulf war and recession, airlines themselves caused their current crisis, say **Paul Betts, Nikki Tait and David Gardner**

From Sydney to Singapore, from London to Los Angeles, the world's leading airlines are blaming the recession and the Gulf war for one of the worst crises in civil aviation history.

No other industry has been savaged so fast by the combined effects of the war and the severe economic downturn. Airline losses have been mounting as they fly half-empty aircraft around the world. They are cutting capital costs, deferring new aircraft deliveries, reducing flight frequencies and suspending unprofitable routes. A transatlantic fares war has erupted and has already turned into a nasty trade confrontation between the US and the UK.

The crisis has prompted sweeping restructurings and job losses in the industry, with many of the financially weaker carriers now struggling for survival. Airlines are clamouring for government support to help them weather the storm. Just before the war started, Mr Jean Pierson, Airbus chairman, warned that "many airlines will go into a state of coma; those already in a coma will be liquidated". His prognosis has proved to be deadly accurate.

There is little the airlines can do about the deepening recession and the war, the latter compounded by a worldwide scare of terrorism which has left airports and aircraft deserted. Nevertheless, the crisis was waiting to happen and was, to a large extent, of the airlines' own making.

During the past few years, the industry indulged in unprecedented expansion. At the end of 1990, a total of 3,746 commercial jets were on order. Airlines took delivery of 664 jets with more than 100 seats each last year compared with 565 in 1989, according to figures compiled by Shearson Lehman. In 1990 alone, airlines placed orders for 1,237 aircraft.

Experience should have warned the industry of the troubles ahead. Air transport has traditionally been one of the most sensitive barometers of economic activity, turning down very quickly in a recession to recover just as swiftly with the first signs of a upturn. It has also tended to follow a ten-year cycle, with declines in the early seventies, again in the early eighties and now, once more, in the early nineties.

Even without the Gulf war, which increased jet fuel costs, the industry's breakneck expansion was leading it into trouble

But airlines appeared to ignore early warning signs of the deteriorating economic situation and the traditionally cyclical nature of their business. Confident that the underlying trend of strong demand for air travel would continue unabated, despite some short-term dips in the rate of growth, they expanded too rapidly. As the recession struck with unexpected speed and violence, the industry was caught short with too much capacity.

The US was the first to feel the squeeze. Many American carriers, flush with strong cash flows and attractive assets, became caught up in America's leveraged takeover surge during the eighties. This left big airlines such as TWA, Continental, Eastern, Northwest and USAir with seriously strained balance sheets when the tide turned.

Negligible growth and over-capacity in the domestic market, coupled with rising labour costs, were taxing US airline managements long before Iraq's invasion of Kuwait. This severely impaired their capacity to cope with the additional pressures caused by the Gulf conflict.

At the simplest level, mounting losses quickly became the catalyst for Chapter 11 bankruptcy filings at Pan Am and Continental, and caused Eastern, already in Chapter 11, to ground its fleet last month.

Over the 12 months to the end of last year, the US industry had lost $2bn. In Europe, the pressures started to be felt in the second half of the year. Mr Bernard Attali, Air France chairman, said this week that European airlines would show a heavy cumulative loss for 1990 – the first time this has happened since 1981.

But even without the Gulf war, which intensified the squeeze by increasing jet fuel costs and then provoking the drop in worldwide air traffic, the industry's breakneck expansion was leading it into trouble. As airlines continued to put more capacity on the market, the increasingly chronic problems of congestion in the skies and on the ground began to make their mark.

"The single greatest threat to continued airline growth and aviation prospects is the current overcrowding of the world's major airports and airways," Mr Richard Albrecht, a Boeing executive vice-president, warned last week. "Aircraft delay is already costing the industry and the travelling public over $9bn a year in the US and Europe alone."

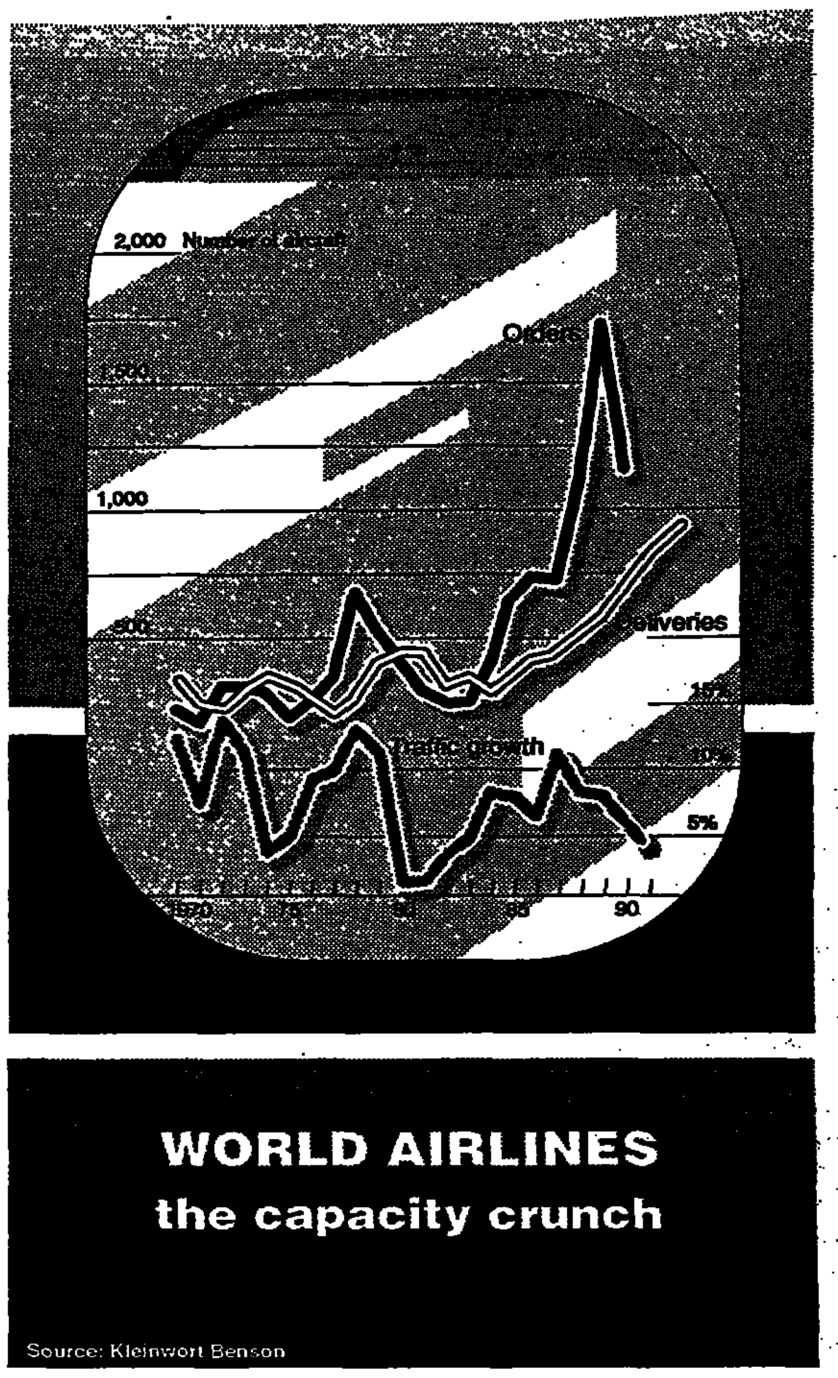
Scarce airport capacity is at the root of the current row between the US and the UK over granting new American carriers rights to fly into Heathrow, one of the world's biggest and most congested airports. But the dispute is also intrinsically linked with the current airline crisis.

The US government has intensified pressure in the past few days on Mr Malcolm Rifkind, the UK transport secretary, to approve a change in the current London traffic distribution rules to allow new international carriers to fly to Heathrow. Under the present rules, only carriers which have operated from Heathrow before 1977 can use London's leading airport.

The US wants the London rules to be changed to enable the two countries to revise their bilateral air service agreement, thus allowing Pan Am and TWA to transfer their Heathrow rights to United Airlines and American Airlines respectively. Desperate for cash, Pan Am has agreed to sell to United its London routes for $290m, while TWA, also financially strapped, has agreed to shed its Heathrow rights to American for $445m. Unless Pan Am can complete its deal by March 8, when it is due to make a $150m loan to Bankers Trust, it risks going out of business.

The US has warned it would take retaliatory measures against UK airlines if it failed to secure the Pan Am and TWA route transfers. It took a first step on Tuesday when Mr Samuel Skinner, the US transport secretary, angry over the British government's hard-line on this issue, rejected British Airways' plans to reduce some of its transatlantic fares from the US by a third.

But Mr Rifkind has also come under pressure from BA as well as regional airlines and UK local authorities to maintain the current Heathrow rules. From the beginning , the UK has sought to win significant concessions for British airlines into the US market before approving the Pan Am and TWA route transfers.



Lord King, BA chairman, said this week that US carriers operating in a protected home market had fleets of 500 or more aircraft which they wanted to send "in waves across the Atlantic". MPs in London yesterday urged Mr Rifkind to threaten reprisals against US airlines in the developing fares and trade war. "In a couple of words, we should simply tell them to get stuffed," said Mr Douglas Hoyle, Labour party chairman of its trade and industry committee.

Airlines on both sides of the Atlantic as well as on both sides of the Channel are now leaning heavily on their governments to help them ride through the current difficulties. Governments have responded sympathetically, albeit in varying ways, to their pleas.

In the US, the dire financial state of some carriers has prompted the American authorities to take a slightly more permissive approach to the controversial issue of foreign investment in the industry. They announced last month that foreigners would be allowed to hold unlimited debt and up to 49 per cent of the equity of a US carrier. However, no rules have so far been introduced and foreign investors are still restricted to 25 per cent of a US carrier's voting stock.

Mr Skinner has also adopted a relatively clearer stance on re-regulation: an issue which surfaces periodically in the US as airline concentration and its implications increases in the industry. "It is time to declare the deregulation debate over and get on with the challenges of the 1990s," Mr Skinner recently said. "There may be fewer major airlines in the 1990s. But even if this happens, we have every reason to believe that robust competition will survive." Of the 10 surviving big US carriers, most industry analysts believe that only three have a guaranteed future: American, United and Delta.

In Europe, airlines have already asked the European Commission to intervene to ease their plight. Mr Attali, Air France chairman and the current president of the Association of European Airlines, has called for less red tape to enable airlines to reduce capacity, measures to help carriers increase fares to offset rising costs, and a halt on new EC regulations which could put further pressure on costs.

But Sir Leon Brittan, the EC competition commissioner, said last week that the Commission did not have "the slightest intention" of reviewing or delaying its air transport liberalisation and competition policies. Other Commission officials warned that any state aid granted to airlines because of the Gulf war could not result in a "general clearance to subsidise". It would have to be short-term and specific in the way it worked, they added.

The Commission is expected to draw up a full package to assist the industry within the next 10 days. All the signs are that it will distinguish carefully between the financial grief caused specifically by the war and the cumulative effects of costs overtaking revenues.

On state aid, the most controversial issue being considered in the EC's rescue package, Sir Leon said: "We will consider each case rapidly, but will have to ensure that competition is not unduly distorted to the detriment of consumers, and of airlines whose governments do not think that giving subsidies is an appropriate response to current problems."

BA, which this week announced 6,600 job cuts, is the main case in point. As a private company, it would have problems obtaining government aid and could be disadvantaged if state-owned competitors were helped with public funds. Though state subsidies for European airlines shrank markedly through the 1980s as the doctrine of liberalisation took hold, the Belgian government's proposed $1bn rescue of Sabena, announced on Tuesday, is evidence that pressures on governments to bail out their flag-carriers have returned to the fore.

With the airline industry facing the biggest shake-out since the Second World War, leading carriers are also anxious to position themselves for an eventual recovery in travel. BA, for example, is continuing to negotiate with Sabena a strategic alliance to create a new European airline hub in Brussels. The UK carrier is also keen to develop another hub in Berlin.

But the industry is worried that the recovery, when it happens, will perhaps not be as vigorous as after previous recessions. Apart from the continuing worries about adequate airport infrastructure and air traffic control facilities which risk clipping the wings of any upturn, terrorism has added an extra dimension to the outlook. This new "fear factor" is likely to linger on well after the Gulf war has ended. In a recent editorial comment, Flight International, the specialist aviation magazine, put it succinctly: "Whatever the outcome of the battle in the Middle East, the war for Kuwait may yet be waged in the airport terminals of the west."

On a flight back from Tokyo to London last Friday, the day after the IRA's mortar attack on Downing Street, the jumbo jet was virtually empty with a smattering of Japanese tourists and even fewer businessmen. One airline official remarked: "We should have invested in faxes rather than in aircraft."

OBSERVER

Fox's run curtailed

■ Sir Paul Fox, the veteran British TV boss due to be knighted by the Queen today, is to end his second career at the BBC. I hear he will not stay on when his contract as managing director of BBC Television expires at the end of April.

This will come as something of a disappointment not only to Fox, who returned to the fold in 1988 after 15 years with Yorkshire Television, but to BBC director-general Michael Checkland. He had wanted 65-year-old Fox to remain his companion on the long march towards the renegotiation of the BBC's charter in 1996.

Apparently the corporation's board of governors took a different view.

Some BBC-watchers think the loss of Fox significantly weakens Checkland's own chances of a contract renewal next year although, being only 54, the director-general is at a different stage of his career. Checkland's main rival for the DG's chair is bound to be his deputy, John Birt, who is currently enjoying the unaccustomed glow of widespread political approval for the Beeb's coverage of the Gulf war.

There have been rumours for some time that Birt might inherit the television director's role and combine it with his existing responsibilities. That, however, will not be the case.

Fox's crown is most likely to go to his assistant MD, and fellow ex-journalist, Will Wyatt, who is just 49 and was head of features and documentaries before stepping up to his present post three years ago. Although a former producer – of Late Night Line Up, for example – he is reputed to be in the level-headed management tradition.

Fox, having missed out on the chairmanship of the Tote, is tipped to lend his considerable weight to an unnamed bidder in the forthcoming ITV franchise round. One obvious possibility would be Carlton Communications, even though it is more in need of a full-time chief executive than another top person in the wings, however well connected.

Green quandary

■ The Gulf war's effect on air travel has posed a moral dilemma for one of the City of London's greens: Tessa Tennant, head of ecological research at Jupiter Tarbutt Merlin. As befits a committed environmentalist, she dutifully travels by train, but now....

Take for instance the return journey between London and Edinburgh. British Airways is wooing back bomb-scared domestic travellers with a fare cut from £94 to £65 – the same as British Rail's ordinary return, although dearer than BR's concessionary £49. But the price of riding the rails first- class is £162.

Although Ms Tennant still intends to go by train, she is none too pleased.

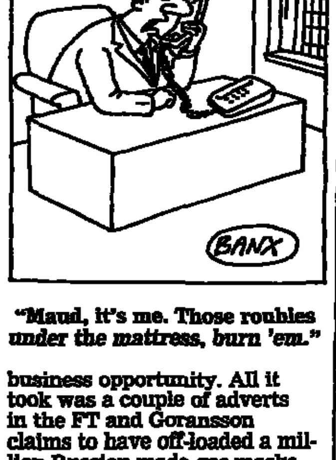
Cold comfort

■ Meanwhile, the Ashford, Kent, branch of Friends of the Earth has cancelled Saturday's demonstration against Global Warming... because of the weather.

Face value

■ Want to do business with the Soviet Union, but worried about being paid? Well, swapping your goods for Russian gas-masks seems to be the business tip of the month in the shadowy world of barter.

Take Soviet demilitarisation and the escalating war in the Gulf, and Jens Goransson, a Swedish middle-man, has found himself a heaven-sent business opportunity. All it took was a couple of adverts in the FT and Goransson claims to have off-loaded a million Russian-made gas-masks at around $33 each to traders eager to sell them on to Middle Eastern clients. However, my men in the black market warn me that the price of gas-masks is dropping fast.



"Maud, it's me. Those roubles under the mattress, burn 'em."

Losing steam

■ The departure of managing director Alain Minc from Cerus, the French holding company of Carlo De Benedetti, will further cool the company's reputation as a literary hothouse.

François Sureau, Minc's hatchet man during the failed assault on Société Générale de Belgique, was the resident in-house novelist until his departure last year for Union des Assurances de Paris (UAP). But Minc himself maintained the tradition with a stream of controversial essays on geostrategy and popular socio-economics.

Cerus's board of directors can still boast one specialist in this genre: Michel Albert, chairman of Assurances Générales de France (AGF) and co-author of "Crise Krach Boom", a best-seller predicting a new boom in the wake of the 1987 stock market crash.

The literary achievements of the rest of the Cerus board are more plodding: a manual of economics from Gérard Worms, the chairman of Suez, a dissertation on the role of the French Treasury from Daniel Lebègue, former Directeur du Trésor, and Pierre Moussa's memoirs of his years at Paribas.

Perhaps De Benedetti should now try to recruit Jean-Yves Haberer, who is now best known as chairman of Crédit Lyonnais but is also the author of an experimental (and impenetrable) novel.

Wisp of memory

■ Smoking is banned on all London buses from today, and with it goes the chance for the capital's image-conscious young to strike a time-honoured attitude.

As aficionados of the rear-platformed Routemaster buses well know, their upstairs back seat was ever a magnet for disaffected youth. A conveniently placed ledge enabled a young man to take a particularly jaunty pose with left leg on ledge and elbow on raised knee.

All that was needed to complete the picture of insouciance was a cigarette dangling between the fingers, a wraith of choking smoke drifting up to the yellowing ceiling. While it lasted, you were the epitome of cool, a veritable James Dean, king of the world – all for the price of a bus ticket.

Out of the blue

■ Bankers brooding over their dismissal notices are asking what's the difference between a P45 and a Scud missile.

With the missile, you get four minutes warning.

ECONOMIC VIEWPOINT

Panic-mongers on the rampage

By Samuel Brittan

It is unfortunate for policy credibility that the timing of the half per cent cut in UK base rates looked like giving in to back-bench panic or to backseat driving. On the other hand, given the low panic threshold of the political and financial establishments, it would have been difficult to find a time for the government to dip its toe into the water of lower interest rates without conveying that impression. The latest move was in fact initiated at the end of last week and co-ordinated with parallel Spanish action.

There are at least three different influences making for panic. First there is the severe UK recession. As I have been warning for several months, unemployment is overtaking both mortgage rates and the poll tax as a source of political concern. Indeed, it is touch and go whether the January unemployment figures published today will reach 2m on a crude headline basis. The timing of the base rate cut is ominous here.

On top of this there is the very considerable extra slowdown attributable to the Gulf war, which has not yet found its way into the statistics. It is easy to make jokes about the large number of courteous taxi-drivers available in London. But such anecdotal information, or reports of a near cessation of Japanese tourist flights, show that there has not only been a general blow to confidence, but a particular blow to the tourist trade, now one of the largest UK industries, especially in the south-east.

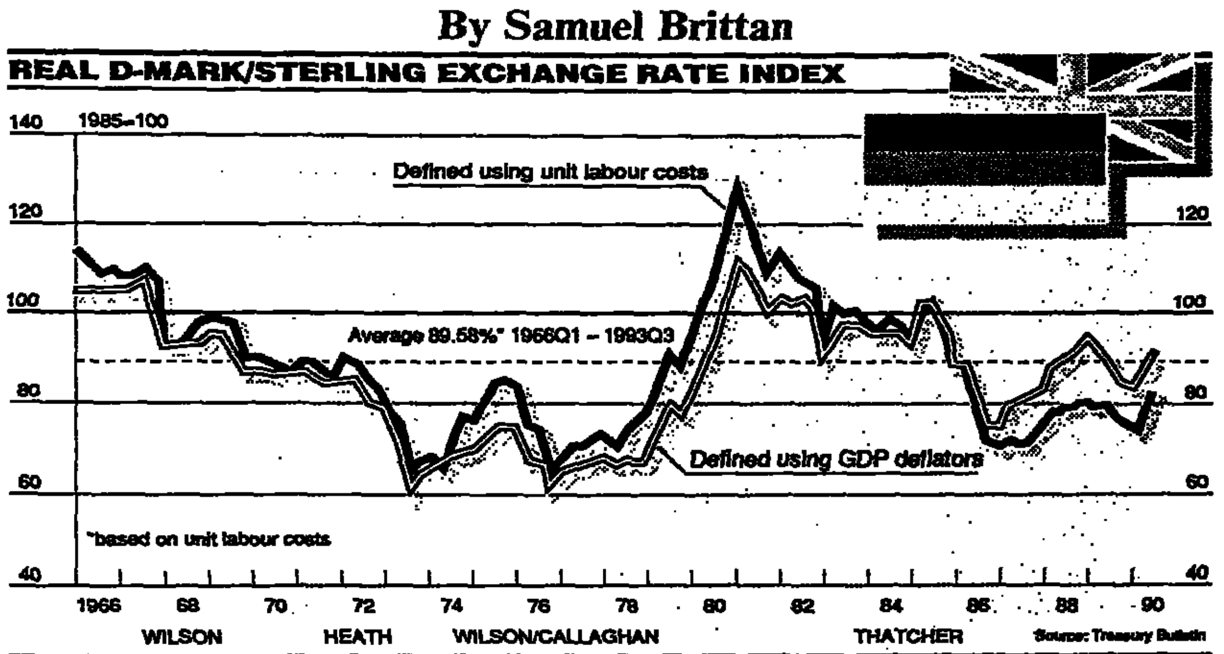
The latest indication that the land war against Iraq is to be postponed – in view of an Iraqi military capability which was culpably underestimated by western intelligence – will prolong the blow.

Third, and not to be overlooked, there is the current spell of Arctic weather this February, which will will show up in super-gloomy statistics to be published well into March and beyond.

We thus have the most fertile soil for pedlars of short termism to project indefinitely the current rate of decline of output, rise in unemployment, pressure on profits, and so on, and forget that recessions like most other things come to an end. As usual, it is the suggested cures that are the more worrying.

A new feature, which we did not have in the 1980-81 recession, has been the unholy coalition of unreconstructed Keynesians who want to spend their way into prosperity, regardless of inflation, and unreconstructed Thatcherites who hate the European exchange rate mechanism so much that they want to do the very same things.

Whether the UK joined the ERM at a correct rate of exchange can be debated indefinitely. But matters of fact and history need to be respected. For in contrast to what some ERM opponents suggest, the squeeze on the economy via the exchange rate was much greater in the 1980 recession, when the Thatcher government relied only on domestic monetary targets and there was no policy for sterling, than it is today.



Any comparison going so far back has to use the estimate of the real exchange rate, that is the rate adjusted for inflation. One way of doing so is to adjust for the movement of relative labour cost in manufacturing, as has been done in the chart. This shows that the real exchange rate for sterling against the D-Mark spiralled in the winter of 1980-81 to 40 per cent above its 25-year average. The rise reflected a double pressure: from the sharply rising pound in the foreign exchange market and the wage explosion following the disintegration of the Labour government's pay policies. In contrast, in the third quarter of 1990, when sterling had already risen most of the way to its ERM entry point, the real sterling-Mark exchange rate was still 5 to 10 per cent below its long-term average.

We have the most fertile soil for pedlars of short termism to project indefinitely the current *rate of decline*

Indeed it is often forgotten that it was the overvaluation of sterling in 1980-81 which triggered off the business campaign in favour of ERM membership as a way of putting a ceiling on sterling. Those involved may have forgotten that rooms with ceilings have floors as well.

In contrast to 1980, the recessionary influences are spread pretty well across the board. Consumer spending has stopped growing altogether. Fixed investment is falling, albeit from a high level; and as a result of these influences and the bank squeeze, inventory accumulation has given way to inventory reduction. An additional external influence is, of course, the overvaluation of sterling against the dollar. Even here, however, the overvaluation is no greater than at its 1980 peak. This, of course, has nothing to do with the ERM but reflects a fall in the dollar against all currencies – itself a product of the US policy of malign neglect of the dollar plus cheap money. (How the UK can ensure the large devaluation of sterling against a downwardly floating dollar demanded by the Minford letter in yesterday's Times escapes me.)

The more realistic valuation of sterling compared with 1980 fits in with some painstaking research by Mark Brown, of UBS Phillips & Drew, on the much publicised Industrial and Commercial Companies financial deficit, which has been running at the shock-horror rate of £30bn per annum. Of this total, only some £3bn can be accounted for by the 170 largest quoted companies monitored by the company. Brown concludes that the pressures come from specific areas outside the main corporate sector, such as property companies, and small and medium-sized companies, which are particularly dependent on bank credit and have been in the front of the recession.

There is a danger of the international regulators taking over monetary policy by default and with dire results

Could then the personal, property and small company sector trigger off what Tim Congdon calls a "credit implosion" (Gerrard and National Economic Review)? That is a decline in credit which would undermine the value of assets bought with borrowed money, which would in turn erode bank capital and bank lending in a continuing downward spiral.

Whatever signs of this process there are in the US, there are few in the UK where bank and building society lending has been rising at an annual rate of 11.8 per cent in the past six months (and slightly more if you take either the past three or past 12 months). It is almost exactly the rate which Congdon himself recommended as compatible with 5 per cent inflation. A few months of single-digit credit growth if we have them, merely means that in an imperfect world lending is bound to fluctuate on either side of any proposed norm.

What really sends Congdon ringing the alarm bells is that asset values have been rising by less than the rate of interest – or in the case of house prices not rising at all. Some of us might suppose this to be a healthy reaction to the 1988-89 period when house prices were rising by more than 20 per cent per annum (as they also did in 1977-80 when there was no question of shadowing the D-Mark).

It is pretty clear that property prices in countries such as the US, the UK and Japan fluctuate by far more than the general rate of inflation – as do commodity prices in international markets. If inflation is to be brought down to a low level we have to pass through a period of zero or falling asset prices. What has been delaying the reduction of British interest rates has been the perceived sluggishness (exaggerated in official statistics) with which wages and final product prices have been following the signals from the financial and asset markets. If the ERM has prevented the government from throwing in the anti-inflationary towel too quickly, that is an additional bonus.

I do, however, usually draw some moral from Congdon's more thoughtful papers (as distinct from his signature of foolish round-robin letters to the press). This time it is that something needs to be done about the "Basle rules" which compel banks to achieve capital-to-asset ratios of 8 per cent by the end of 1992. This is a classic example of the tendency for all regulators to bolt the stable door firmly after the horse has bolted.

These rules might have helped to promote more prudential lending if they had been there in the middle and late 1980s. Enforcing them now simply worsens any credit crunch and makes it more difficult for monetary policy to operate, especially in the US – a criticism also made by President Bush's Council of Economic Advisers. Indeed, there is a danger of the regulators taking over monetary policy by default and with dire results.

The Basle policemen would surely not lose too much face if they extended by two or three years the date by when their directive comes into force. The directive might then be able to control the excesses of the next boom rather than be an obstacle to recovery from a recession.

Here is a subject on which the Group of Seven could work out common policies and thus help to put in better repair the American banking system – the state of which is the real obstacle to any more ambitious attempts to revive exchange rate management at the G7 level.

BOOK REVIEW

Hard thoughts on the left

THE PROGRESSIVE DILEMMA
By David Marquand
Heinemann. £20

David Marquand has, in a flow of essays and in his 1989 book, *The Unprincipled Society*, put himself near the head of those who would seek to lay down a framework within which a renewed British left might operate.

His career took him from Labour's back benches in the 1960s through European Community officialdom with Lord (Roy) Jenkins in the 1970s to active membership of the Social Democrats and Liberal Democrats in the 1980s – a trajectory which, far from reducing him to mute frustration, set him on a continuing search for a base from which a new politics might draw sustained inspiration.

In this latest book, largely a collection of essays and reviews from the past few years, his main concerns are again evident: an assertion of "political" as well as "social" citizenship, which would put the individual in a network of civil rights and responsibilities; an attempt to transcend the "state versus market" dichotomy; and a reflection on the "progressive dilemma" itself – that of a left born of and needing to express the aims and resentments of labour, but limited by class-bound conservatism and a persistent escape into Utopianism.

This is not, however, a carrying forward of the themes of The Unprincipled Society. As Marquand notes more than once in its pages, the non-Conservative part of the British electorate (the majority) still lacks a stream of ideas and hard thought, even though it has constantly called for it. What we have here are thoughts on the left, very often through the medium of its leading post-war men. His particular heroes were Ernest Bevin, Hugh Gaitskell and, on an intellectual level, Tony Crosland.

Yet – as he now recognises – the people he most admired were most wrong. Bevin may have built the Transport and General Workers into the most powerful union on earth: enshrined the unions' right to share power within the post-war social settlement; and brilliantly played from a weakening hand to maintain Britain as one of the Big Three in the late 1940s. But he left a legacy of fragmented voluntarism among trade unions which could not develop or withstand assault in the 1970s and 1980s, and he confirmed a scorn for European co-operation which took decades to reverse.

Gaitskell, right to attempt to social-democratise his sentimentally socialist party, failed to do so and deepened Labour's distaste for abandoning "a thousand years of history" by embracing Europe.

And Crosland, most painful because the closest, was indifferent to Europe, scornful of the new political movements of the 1960s, uninterested in constitutional reform. The man who had staked out a model for civilised redistribution of effortless growth in The Future of Socialism, was "intellectually defenceless" before the storm which bent the 1976 Labour cabinet to accede to the IMF-imposed economies: "his own alternative," says Marquand, "amounted to little more than an impotent and corrosive regret".

He is not unsympathetic to David Owen, whom he sees as a romantic, who gambled and lost because he needed "psychic space, freedom to be himself and follow his instincts". But in the end his judgment is that Owen was an anti-liberal, searching for the thrusting "new man" constituency Mrs Thatcher had not taken to her.

About Neil Kinnock he recognises his skills, patience and endurance in shaping Labour into a Social Democratic party. But he sees him, too, as a fragile figure: a manager with no more political inspiration than ambition, thus vulnerable, like Harold Wilson when in power, to governing over a void.

For Marquand, the dilemma is not genuinely resolved: while non-Conservatives have lost their Utopianism, they have not yet found a belief. It is as good an explanation as any why the result of the next election remains open, and the long Conservative hegemony may continue.

John Lloyd

LETTERS

Different lessons in the Conti battle

From Mr John Craven.

Sir, Your leading article, "Lessons of the Conti battle," (February 11) learns, I am afraid, the wrong lessons from the Conti affair.

You have chosen to characterise this battle as a nationalistic contest, with the major German car makers intervening to preserve competition and protect German control of Continental, and have ignored the compelling commercial and financial reasons for rejecting a merger.

I can do no better than recall the Lex column's comment on September 25 1990, that "Continental was supposed to gear itself up to the eyeballs to buy Pirelli Tyre on 50 times earnings, or twice the current share price, and then cede control of the combined group to a shadowy group of investors organised by Pirelli's Italian parent. The effect on minority shareholders would be disastrous".

As the document which Continental has issued makes very clear, there is not a "good business fit" between the two groups. Apart from anything else, Pirelli has a major exposure to Turkey and South America and a merger would therefore detract from Continental's strong focus on important markets of Europe, North America and the Far East.

Equally, Continental is quite large enough on its own to have factories dedicated to the manufacture of one product which is how economies of scale can be achieved.

The tyre industry in Europe has been highly competitive because a price war is being waged, but Continental is still operating at full capacity in Europe and will be the only large tyre maker apart from Bridgestone to report a profit for the second half of 1990. Continental is the stronger company which is why Pirelli wants to merge its tyre business with Continental.

A merger would substantially weaken Continental and this would be detrimental to its customers and those of its shareholders who are not connected with Pirelli.

Perhaps I can just remind you of the "battle" plan. Pirelli and its associates purchased a substantial shareholding in Continental which had apparently been built up by speculators over time.

Claiming to be able to command a majority of Continental's shares, Pirelli then tried to impose a proposal whereby Continental acquired Pirelli's tyre business at a price which represented a premium of well over 100 per cent to the market capitalisation of the business.

Had this been implemented, the other shareholders of Continental would have suffered a double diminution in value.

First, because they would have become minority shareholders in a controlled company and, second, because Continental would have paid much too high a price for Pirelli's tyre business.

Put another way, this must be the first time a company has been expected to pay a massive premium to lose rather than acquire control of a business.

Pirelli has insisted that its approach has been friendly, but its hostile intent is demonstrated by its refusal to enter into a standstill agreement which would have enabled Continental to participate in discussions to consider the merits of a merger without being under undue presure.

In short, Continental's rejection is not fuelled by a "Fortress Germany" mentality, but by a need to protect the company and those of its shareholders not connected with Pirelli from a hostile proposal which would be extremely damaging to their interests.

If there are any lessons to be learnt from the battle, it is that there is inadequate protection for minority shareholders in German-quoted companies.

There is a popular misconception that German companies are bid-proof. This is simply not the case (consider Stora's takeover of Feldmühle Nobel last year), although as things stand there may not be many full bids as a predator is under no obligation to extend a bid to all shareholders, whatever the size of shareholding the predator has acquired. Until more demanding regulations are introduced, this is likely to mean that the only shareholders who benefit from these situations are speculators who build up a large shareholding in a target company and then sell out to predators, obtaining the whole of the control premium for themselves.

A number of German companies do have a 5 per cent voting restriction. This certainly does not make a company bid-proof but is one, albeit imperfect, method of trying to ensure that a predator has support from other shareholders before it is able to take control.

I would imagine that if regulations were introduced which reduced the trigger point for disclosure of shareholdings (which are in bearer form in Germany) from its level of 25 per cent to a level similar to the 3 per cent which applies in the UK and which obliged a predator and concert parties to extend a bid to all other shareholders before taking control, many companies would happily abandon the 5 per cent voting restriction.

John Craven,
chairman,
Morgan Grenfell Group,
23, Great Winchester Street,
London EC2

Fax service

LETTERS to the Editor may be faxed on 071-873 5938.

Letters should be clearly typed and not handwritten. Please set the fax machine for fine resolution.

Readers may also use a direct computer-to-computer link, but should first telephone our computer department on 071-873 4893.

Addiction for Gulf war news

From L. R. Allen

Sir, Christopher Dunkley's recent petulant little attack on Cable News Network (CNN) was poorly presented and, therefore, wide of the mark.

The current reader/viewer compulsion for "instant news" may indeed be a cause for some concern and deserves thoughtful review. It seems clear that we are expecting more than the media are actually equipped to provide.

However, CNN did not cause the problem. It is simply the most successful of the messengers. The personal views expressed about the owner of CNN and comments on American pronunciation were simply "cheap shots" unworthy of a publication of your quality.

L.R. Allen
6 Tenby Mansions,
Nottingham Street,
London W1

Superficial US stereotypes

From Mr Kirk Vogel.

Sir, As a devoted American FT reader, I find Michael Prowse's "On America" column ("US absorbed with itself, in spite of the war," February 11) to be well below your newspaper's high standards.

Mr Prowse's repetition of tired, superficial, Yank-bashing stereotypes, supported by recent out-of-contest anecdotal evidence, does nothing to shed new light on this interesting subject.

This type of mean-spirited generalisation can all too easily be written about any country by a citizen of another.

For instance, Mr Prowse might be familiar with the American version of his washing machine comparison. Since Americans, unlike Europeans, are in the habit of washing their shirts and underwear after each wearing, instead of after five consecutive days of wear, it is not necessary to boil our clothes in a high-quality German washing machine.

Kirk Vogel,
19, Ralph Street,
Stamford, Connecticut.

Let's encourage good ideas

From Mr Andrew Wood.

Sir, I was sorry to see from your article, "Staff incentives plan switched," (January 18) that Courtaulds Fibres at Grimsby has decided to abandon its long-established suggestion scheme.

It is not our experience that suggestion schemes need to be bureaucratic, or that they will not fit happily alongside "total quality management programmes". There are several examples within British industry where the two co-exist.

I firmly believe that no source of good ideas should be rejected. Those who attend our workshops agree that schemes can be friendly, open and fun to take part in.

Our most recent survey, run with the Industrial Society, revealed that savings of more than £300m could be achieved if all of British industry implemented employee suggestion schemes.

Andrew M Wood,
UK Association of Suggestion Schemes,
PO Box 55,
Wetherby, West Yorkshire.

FINANCIAL TIMES
Thursday February 14 1991

SOVIET FINANCIAL SCANDAL

Fantastic deal fells Russian minister

By Quentin Peel in Moscow

MR Gennady Filshin, deputy prime minister of Russia and a close ally of Mr Boris Yeltsin, the Russian president, resigned yesterday in the midst of a financial and political scandal, allegedly involving Rbs140bn – more money than the entire amount of cash in the Soviet economy.

What would have been the deal of the century, if it had been genuine, is now under investigation by the KGB, the Soviet secret service, and the state prosecutor.

Yet it bears all the hallmarks of a fantastic sting operation by the Soviet authorities, aimed at the Russian leadership in general, and Mr Yeltsin in particular.

Mr Filshin's resignation was yesterday accepted by the presidium of the Russian parliament. He quit, claiming that the whole exercise was "part of a campaign waged against the leadership of the Russian federation".

He said that all his attempts to explain his role in the "non-existent Rbs140bn affair" had been distorted, and he could not carry out his duties properly.

The extraordinary saga began three weeks ago when a British businessman, representing a company called Dove Trading International, was stopped and searched leaving Moscow airport. As Soviet television reported within hours, he was found to be carrying a letter from Mr Filshin.

The letter gave the Russian government's blessing to an extraordinary plan. The western company was to act as an intermediary, providing consumer goods and food products bought for $7.5bn and, in return, buying investments in Russia worth Rbs140bn.

The sums of money were clearly fantastic, but Mr Filshin signed a letter promising the "assistance and support" of his government in the realisation of the contract.

Just what that meant is unclear. Mr Filshin proposed "a credit transfer with subsequent reinvestment of the Soviet roubles received by the foreign *companies in different industries* of the Russian national economy". The whole deal, his letter said, was aimed at "providing the population with basic consumer goods".

As soon as details of the affair were published, it started to fall apart, not least because of the gigantic amounts of money involved. Yet it has been treated with great seriousness by the Soviet media and politicians.

Dove International Trading is run by Mr Colin Gibbins, a British businessman, who registered the company in South Africa. He is wanted in Britain on charges of attempting to smuggle high-technology goods to the Soviet Union, in 1989, in defiance of the Cocom rules.

Mr Gibbins has been questioned by the KGB, but does not appear to have been detained for any offence.

The affair has been seized upon with glee by the official, conservative Soviet media, as an indication of how Mr Yeltsin's Russian government is prepared *to sell the country's birthright.*

In particular, the suggestion that Rbs140bn were worth $7.5bn – close to the black market exchange rate of at least Rbs20 to the dollar – has been presented as a crime against the country.

Mr Valentin Pavlov, the prime minister, made a clear reference to the affair in his attack on dubious trade deals this week, saying: "Today, very often, we witness uncontrolled deals with second-rate firms, or with fugitives who are being sought by Interpol."

On the other side, Mr Viktor Yaroshenko, the Russian minister for foreign economic relations, claimed, as did Mr Filshin, that the whole operation was a set up. He said "provocations and slander" had been aimed at the Russian government.

Businessmen startled by Pavlov fantasy, Page 4

Moscow agrees to Nigerian debt proposal

By William Keeling and Michael Holman in Lagos

NIGERIA has reached agreement in principle with the Soviet Union on the rescheduling of its estimated $900m debt, Nigerian officials said in Lagos.

The officials also disclosed that Mr Alhaji Abubakar Alhaji, Nigeria's minister of finance, was expected to meet the London group of commercial bank creditors on February 25 for what they hope will *be the final round in* protracted efforts to reschedule $5.8bn owed to the banks.

The agreement with Moscow was reached during the visit to Lagos in December by Mr Oleg Davydov, Soviet deputy minister of external economic relations, and covers commercial credit for Nigeria's multi-billion dollar Ajaokuta steel project, still under construction.

Under the agreement, maturities of principal and interest due between October 1986 and October 1990 worth DM1.3bn ($890m) will be payable at six-monthly intervals until October 1996.

The deal follows last month's rescheduling agreement between Lagos and its Paris Club group of creditors, covering official debt falling due before the end of March 1992.

One of the leading contractors for Ajaokuta is the Soviet company Tiajpromexport. Western diplomats estimate that the cost of the project to date is approximately $5bn and that it will require a further $2bn before the plant can become operational.

With the rescheduling of debt owed to the Soviet Union and the recent Paris Club deal, and an agreement with the London Club apparently in prospect, Nigerian officials now believe that the country's estimated $35bn debt is now better managed than at any time since the debt crisis was precipitated a little more than a decade ago by falling oil prices.

Oil exports account for more than 90 per cent of Nigeria's *foreign exchange earnings.*

The size of the debt will be reduced if the Nigeria and the commercial banks reach agreement at their meeting in London this month.

Nigeria is thought to have proposed the purchase of commercial debt outstanding at market value – which is about 35 per cent – with the balance to be covered by collaterilised bonds with a maturity of 30 years and a 6.25 per cent interest rate.

Last May, Nigeria unilaterally declared that it would pay 3 per cent interest on the debt and withhold payment of capital until a rescheduling agreement had been reached.

Nigerian officials hope that by the time the government hands over to civilian rule – scheduled to be in late 1992 – *Nigeria's debt service ratio* will be under 25 per cent.

Last year, at least 30 per cent of Nigeria's foreign exchange receipts were spent on debt servicing.

The 1991 budget envisages debt services payments for the year of $3bn and the rescheduling of $4.5bn of debt.

Eastern Europe needs aid, Page 4

EUROPEAN COMMISSION

Brussels proposes petrol tax target

By Lucy Kellaway in Brussels

THE EUROPEAN Commission *yesterday proposed a target* rate for excise duties on petrol and diesel fuel that could involve large rises in the tax on petrol in most of the 12 EC countries after 1992.

Mrs Christiane Scrivener, the commissioner responsible for tax matters, said the rates would "give a clear signal to cut carbon dioxide emissions and protect the environment".

She stressed that the new rates – equivalent to Ecu495 ($698) for 1,000 litres of leaded petrol and Ecu445 for unleaded – were targets to move towards, and that no date had been set for countries to reach them.

The idea was that a minimum tax rate would be established in all countries by 1992, *and that any attempts by member* states to move their rates after that date would have to be towards the target.

This is a long way from the Commission's original scheme, which was to set a single rate of excise duty throughout the Community, but this idea was dropped when it became clear that the gulf between rates in *different countries was too* wide to bridge.

Yesterday's proposals will need the unanimous agreement of member states by the summer, or the end of the year at the latest, in order to meet the deadline at the end of 1992.

However, some countries expressed doubts yesterday over whether agreement could *be reached by then, and* pointed out that there had still been no agreement on the setting of a minimum rate, which was proposed in October 1989. Britain, for example, does not regard any enforced narrowing of differences in tax rates as necessary for the single market.

The proposals are the most important in the area of excise duty because they represent 40 per cent of all excise revenues.

The target rates for unleaded petrol would represent a 56 per cent increase in tax in the UK, one of the lowest in the Community, and a 20 per cent reduction in Italy. The minimum rate of Ecu337 would involve more modest increases in five member states. In addition, a band of rates has been proposed for duties on diesel fuel, which would come into force at the beginning of 1993.

This band would be obligatory and would mean higher revenues in seven countries, and lower taxes in Italy and in Ireland. Luxembourg and *Greece would be the most* strongly affected, because taxes in both countries are about one third the Ecu245-Ecu270 per 1,000 litres proposed by the Commission.

European car makers seek to heal split, Page 4

The governments of Belgium, the Netherlands and Denmark have agreed to stop paying out state aid under general investment schemes in response to demands from the European Commission, Lucy Kellaway writes.

Sir Leon Brittan, the competition commissioner, had objected to the schemes on the grounds that they give member states too much scope in handing out subsidies without getting the approval of Brussels first. He feared that they could be used as a way of subsidising industries on an ad hoc basis, distorting competition, and clashing with other EC regional or sectoral guidelines on aid.

The UK, which was also criticised last summer for general *aids paid out under its 1982 Industrial Development Act has* still not reached any agreement with Brussels. At the time it expressed hostility at the interference from Brussels, and said that the attack was the result of a "misunderstanding". Italy, which was singled out last year as the biggest payer of aid under general schemes has also failed so far to agree to Commission requests.

US claims bunker was military

Continued from Page 1

we do know that Saddam Hussein does not share our value in the sanctity of life. Indeed, time and again, he has shown *a willingness to sacrifice civilian lives and property that further his war aims."*

The statement listed a number of instances such as the firing of Scud missiles at civilian targets, the use of civilian hostages as human shields, the placing of command and control centres on top of schools and public buildings, and the siting of tanks and other artillery pieces beside private homes and in small villages.

In New York, the UN Security Council was scheduled to meet last night.

Agreement to hold the United Nations session, the first on the Gulf question since allied forces began bombarding targets in Iraq and occupied Kuwait, was reached only after long and bitter private negotiations.

British Steel to make 800 job cuts as demand in UK declines

By Andrew Taylor in London

BRITISH STEEL plans to cut 800 jobs at its steelmaking works on Humberside in the north of England bringing the number of redundancies announced by the corporation to 3,000 since last April.

The group yesterday blamed the cuts on falling demand in the UK and increased competition in international markets and warned that further jobs may be lost at the group if markets did not improve.

The UK construction industry, which takes steel from the Scunthorpe works, has been hit particularly badly by the recession.

Construction output is forecast by the National Economic Development Office to fall by 6 per cent this year.

Demand for other types of steel has also fallen sharply. British Steel warned that sales of strip products, accounting for about half of its output, were expected to fall by about 13 per cent during the first three months of this year compared with the corresponding period last year.

It said economic and political problems in the Soviet Union, China, eastern Europe and the Middle East meant these countries were no longer purchasing as much steel.

The Humberside works located at Scunthorpe, which makes steel for the construction and engineering industries and for rerolling in other countries, currently employs 7,000. The 800 jobs will be phased out by the end of March next year.

On Tuesday the last piece of steel was rolled at British Steel's strip mill at Ravenscraig, near Glasgow, Scotland, which will close this week with the loss of 770 jobs.

The announcement last April of the Ravenscraig closure sparked a political row as ministers were accused of not doing enough to prevent the demise of Scotland's flagship steelworks.

In November, British Steel announced the closure of its Clydesdale tube mill at Bellshill, close to Ravenscraig, with the loss of another 1,200 jobs.

About a further 300 redundancies have been announced at other British Steel plants.

The corporation said the job cuts were among a series of cost-cutting measures being taken to offset declining demand and weak trading conditions. The company announced in November that pre-tax profits in the first six months of last year had fallen by 27 per cent to £307m ($608m).

Some of the job losses at Scunthorpe affect management and administrative staff. British Steel warned at the end of last year that it expected to make further cuts among its 12,500 white collar workers as it intensified cost-cutting.

US retail sales continued to slide in January

By Michael Prowse in Washington

US RETAIL SALES continued to slide in January, giving no indication of an early end to the recession, the Commerce Department reported yesterday.

After seasonal adjustment, retail sales fell 0.9 per cent in cash terms to $148.2bn. The decline in the year to January was 1.4 per cent.

Last month's decline was slightly smaller than some analysts had feared. However, optimism was tempered because the department sharply revised sales figures for December down, to show a fall of 1.5 per cent compared with an initial estimate of 0.4 per cent. This was the biggest monthly decline since January 1987.

The 2½ per cent drop for the two months taken together was considerably worse than expected and indicates significant retrenchment by US consumers.

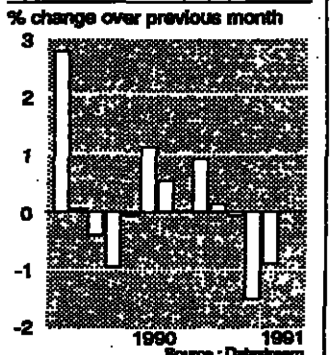
The figures make no allowance for inflation, which is running at an annual rate of about 5 per cent.

The weak sales figures reflect declining consumer confidence, which fell to its lowest level in a decade in January. Confidence has been hit by the Gulf war, declining personal incomes and rising unemployment.

Yesterday's figures follow other signs of economic weakness in January, including a sharp contraction of employment and a steep fall in the Purchasing Managers' Index – a widely watched gauge of industrial health. Together, these imply a sizable fall in gross national product this quarter, after a 2.1 per decline at an annual rate in the fourth quarter of last year.

US retail sales value

% change over previous month



Source : Datastream

Durable goods sales were particularly weak, falling 2.8 per cent in cash terms last month. Year-on-year figures showed a decline of 11.3 per cent.

Much of the weakness was concentrated in the car industry, where sales were 16 per cent down on the levels of January 1990. But sales of building materials, hardware and home furnishing were also sharply down.

Sales of non-durable goods increased 0.1 per cent last month and were 4.6 per cent higher than a year ago – an increase nearly sufficient to keep pace with inflation. Total sales, excluding the car industry, were flat in January.

Shutdown of Soviet factory

Continued from Page 1

A resolution signed on Tuesday by Mr Edgar Savisaar, the Estonian prime minister, provides tax and hard currency *benefits for enterprises abiding* by Estonian law. The move is a clear attempt to enlist the support of Estonia's substantial Russian minority for the republic's campaign to restore its pre-war independence.

● Mr Grigory Yavlinsky, the prominent radical economist who resigned from the Russian government last year, is to work as an economic expert for the republic of Kazakhstan, Izvestiya newspaper reported yesterday.

Mr Yavlinsky, one of the main authors of the 500-Day Programme for radical market reform rejected by the Soviet parliament, resigned as Russian deputy prime minister saying the plan was unworkable in Russia alone.

He was followed by finance minister Boris Fyodorov.

THE LEX COLUMN

Too little and too soon

Yesterday's UK interest rate cut showed just how fine are the tolerances to which the government is working. On the one hand, the half-point cut was scrupulously within the limits discounted by the money market, which moved a further quarter point down in response. On the other, the cut came at a time when sterling was still at the bottom of its ERM band and the weakest *member of the system. So far* at least, the gamble has paid off. But the effect on the markets has been to re-awaken suspicion that the government is open to political pressure after all.

A further half point is doubtless obtainable by next month's Budget. But the next couple of points, which matter a good deal more in reviving the economy, will be harder to come by. Whatever the official claims of yesterday's move having been premeditated, the awkward fact is that it coincided with a Commons debate and headlines about dissident economists. Public pressure for lower rates is self-defeating if it sets the markets worrying about devaluation. It is all the more so if it appears to worry the government as well.

It is of course conceivable that the protesters are right: that delaying substantial cuts until the system permits – say, until late this year – could provoke a slump. But on the assumption that dropping back out of the ERM is not a realistic option, there is no choice for the UK but to obey the rules and take its chances. The paradox for the government therefore remains the same: the more desperate it is to lower rates, the more it must be seen to deny the fact. Yesterday's action did little to further its cause.

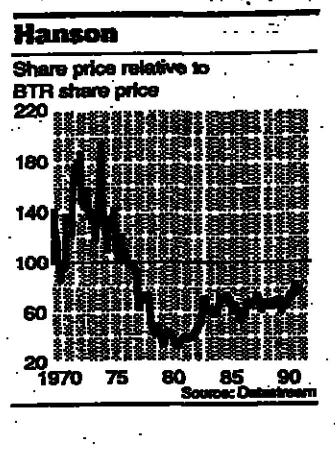
Hanson

For some time now, the market has asked itself whether Hanson's 27-year record of increased earnings is about to stumble. Despite yesterday's unchanged first quarter earnings and the subdued tone of the accompanying statement, it is surely not beyond Hanson's ingenuity to scrape by. But on at least two counts, there is room for caution on *how soon the old growth pattern can be resumed.*

The first concerns Hanson's exploitation of the UK/US interest rate gap. Its last balance sheet showed £2.6bn net borrowings in the US and £3.2bn net cash in the UK. At today's interest rates that would produce almost £250m of interest receivable – some 20 per cent of group pre-tax profits – on net cash of under £600m. Given Hanson's US asset backing, there is nothing particularly imprudent about this. But as the Continental European economies join the US in turning down, the interest gap looks bound to close.

Hanson

Share price relative to BTR share price



Source: Datastream

The second cautionary note comes with the drop in extraordinary income from £182m in the quarter to £49m. Traditionally, one of Hanson's most remarkable talents has been as asset broker. In today's corporate climate, it is not buying assets which is the problem, it is selling them. In the roaring 1980s, Hanson's shares outperformed those of BTR by a wide margin. In the 1970s it was the other way round. It remains to be seen which decade more closely resembles the present one.

Suez

Mr Carlo de Benedetti is having his nose rubbed in it. Denied control of Societe Generale de Belgique in 1988, he has now been forced to sell his remaining 10 per cent stake to Compagnie de Suez at what may prove the bottom of the market. The buyer is not even doing him the courtesy of paying cash. By issuing shares, it could also solve a nagging problem of its own: the relatively large chunk of Suez equity held by companies within the Suez group, stock which will lose its voting rights from July when the incestuous continental practice of autocontrol is finally disallowed.

Whether Suez really wants to end up with 61 per cent of SGB at this stage is another matter. True, the de Benedetti stake might have been awkward if it had ended up in other hands. But it is difficult to believe Suez will be able to exert greater leverage as a result of the purchase. The recent disposal of the arms maker FN was a notable coup for the French owners: *but that* was a real basket case. The Belgian minority shareholders - ever sensitive to hints of a French asset strip - will still resist if prized assets like the non-ferrous metals business Acec Union Miniere were to be put on the block.

But the other part of yesterday's deal, involving buying control of La Henin, gives Suez a domestic assortment of assets without the political problems. The price avoids dilution, while the strategy fits with the new more hands-on approach and provides scope for increasing earnings per share through asset sales. But Suez still has a long way to go before it is regarded as an Anglo-Saxon style conglomerate.

Wickes

The story behind yesterday's rights issue from Wickes is not edifying. Last April's annual report from the small British DIY retailer was a gushing document, aglow with the benefits of its £280m-odd purchase in 1988 of Hunter timber merchants. Of course, the building market was poor. But, said Wickes, management had responded early: 800 jobs had gone, debt was falling and the objectives of the deal had all been met.

Wickes spoke too soon. Net debt and loan stock are still up at around £160m, rather inconvenient for a company whose pre-interest profits collapsed to just £5m in the last six months of 1990. The bank portion of the borrowings is awkwardly scattered among 14 banks. Far from having met its objectives, Hunter seems to have been a mess: putting it right will cost £10m and hundreds more jobs. As for the Wickes retailing business, it is as sound as can be expected, but not large enough to shore up the group's finances on its own.

A rights issue is self-evidently the proper step; but company managements generally should not misinterpret the situation. At £42m the issue is small, a fifth of it presumably heading for Wickes's largest holder Hillsdown, and the equity market is hungry for paper anyway. Wickes is a relatively simple business, with an obvious appeal as a play on lower UK interest rates. This is not the kind of thing that tests the limits of fund managers' patience. Cash calls from undermanaged financial institutions or large property companies might be another matter.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	[illegible]	[illegible]	[illegible]	Berlin	[illegible]	[illegible]	[illegible]	Caracas	[illegible]	[illegible]	[illegible]	Faro	[illegible]	[illegible]	[illegible]	Istanbul	[illegible]	[illegible]	[illegible]	Madeira	[illegible]	[illegible]	[illegible]	Milan	[illegible]	[illegible]	[illegible]	Nicosia	[illegible]	[illegible]	[illegible]	Salzburg	Sn	-3	27	Tenerife	F	17	63
Algiers	[illegible]	[illegible]	[illegible]	Biarritz	[illegible]	[illegible]	[illegible]	Casablanca	[illegible]	[illegible]	[illegible]	Florence	[illegible]	[illegible]	[illegible]	Jakarta	[illegible]	[illegible]	[illegible]	Madrid	[illegible]	[illegible]	[illegible]	Montreal	[illegible]	[illegible]	[illegible]	Oporto	[illegible]	[illegible]	[illegible]	San Francisco	S	9	48	Tokyo	F	11	52
Amsterdam	[illegible]	[illegible]	[illegible]	Bombay	[illegible]	[illegible]	[illegible]	Chicago	[illegible]	[illegible]	[illegible]	Frankfurt	[illegible]	[illegible]	[illegible]	Jersey	[illegible]	[illegible]	[illegible]	Majorca	[illegible]	[illegible]	[illegible]	Moscow	[illegible]	[illegible]	[illegible]	Oslo	[illegible]	[illegible]	[illegible]	Seoul	S	9	48	Toronto	C	-3	27
Athens	[illegible]	[illegible]	[illegible]	Bordeaux	[illegible]	[illegible]	[illegible]	Cologne	[illegible]	[illegible]	[illegible]	Geneva	[illegible]	[illegible]	[illegible]	Johannesburg	[illegible]	[illegible]	[illegible]	Malaga	[illegible]	[illegible]	[illegible]	Munich	[illegible]	[illegible]	[illegible]	Paris	[illegible]	[illegible]	[illegible]	Singapore	F	31	88	Tunis	R	10	50
Bahrain	[illegible]	[illegible]	[illegible]	Boulogne	[illegible]	[illegible]	[illegible]	Copenhagen	[illegible]	[illegible]	[illegible]	Gibraltar	[illegible]	[illegible]	[illegible]	Karachi	[illegible]	[illegible]	[illegible]	Malta	[illegible]	[illegible]	[illegible]	Nairobi	[illegible]	[illegible]	[illegible]	Peking	[illegible]	[illegible]	[illegible]	Stockholm	Sn	-2	28	Valencia	S	10	50
Bangkok	[illegible]	[illegible]	[illegible]	Bristol	[illegible]	[illegible]	[illegible]	Corfu	[illegible]	[illegible]	[illegible]	Glasgow	[illegible]	[illegible]	[illegible]	Las Palmas	[illegible]	[illegible]	[illegible]	Manchester	[illegible]	[illegible]	[illegible]	Naples	[illegible]	[illegible]	[illegible]	Perth	[illegible]	[illegible]	[illegible]	Strasbourg	Sn	-2	28	Venice	F	5	41
Barcelona	[illegible]	[illegible]	[illegible]	Brussels	[illegible]	[illegible]	[illegible]	Delhi	[illegible]	[illegible]	[illegible]	Helsinki	[illegible]	[illegible]	[illegible]	Lima	[illegible]	[illegible]	[illegible]	Manila	[illegible]	[illegible]	[illegible]	Nassau	[illegible]	[illegible]	[illegible]	Prague	[illegible]	[illegible]	[illegible]	Sydney	S	29	84	Vienna	F	-1	30
Beijing	[illegible]	[illegible]	[illegible]	Budapest	[illegible]	[illegible]	[illegible]	Dublin	[illegible]	[illegible]	[illegible]	Hong Kong	[illegible]	[illegible]	[illegible]	Lisbon	[illegible]	[illegible]	[illegible]	Melbourne	[illegible]	[illegible]	[illegible]	New Delhi	[illegible]	[illegible]	[illegible]	Reykjavik	[illegible]	[illegible]	[illegible]	Taipei	G	22	72	Warsaw	Sn	-4	25
Belfast	[illegible]	[illegible]	[illegible]	Buenos Aires	[illegible]	[illegible]	[illegible]	Dubrovnik	[illegible]	[illegible]	[illegible]	Innsbruck	[illegible]	[illegible]	[illegible]	London	[illegible]	[illegible]	[illegible]	Mexico City	[illegible]	[illegible]	[illegible]	New York	[illegible]	[illegible]	[illegible]	Rhodes	[illegible]	[illegible]	[illegible]	Tangier	C	14	57	Washington	F	2	36
Belgrade	[illegible]	[illegible]	[illegible]	Cairo	[illegible]	[illegible]	[illegible]	Edinburgh	[illegible]	[illegible]	[illegible]	Inverness	[illegible]	[illegible]	[illegible]	Los Angeles	[illegible]	[illegible]	[illegible]	Miami	[illegible]	[illegible]	[illegible]	Nice	[illegible]	[illegible]	[illegible]	Rio de Janeiro	[illegible]	[illegible]	[illegible]	Tel Aviv	-	-	-	Zurich	F	-3	27
				Cape Town	[illegible]	[illegible]	[illegible]									Luxembourg	[illegible]	[illegible]	[illegible]									Rome	[illegible]	[illegible]	[illegible]								

Temperatures at midday yesterday C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

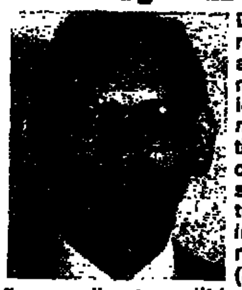
Philips builds up Chinese ventures

It is emerging as one of China's largest foreign investors. Philips, the Dutch electronics group, is involved in nine manufacturing and assembly joint *ventures — all scheduled to be* operating by early next year. The tie ups are mostly in consumer electronics and components and do not appear to *have been affected by the group's international* financial problems and cost cutting programme. John Elliott reports. **Page 20**

Seeing the wood from the trees

Despite the adverse weather, there was an unusually large turnout yesterday at the annual general meeting of EFG, the forestry and home and leisure products group. Disgruntled shareholders packed the sumptuous conference room of the Caledonian Club to express their shock and dismay at the company's recent decision to divest itself of its forestry business. *Michiyo Nakamoto reports.* **Page 22**

Dixons tightens Silo



Dixons, the UK electrical retailer, yesterday announced new appointments at its North American subsidiary Silo. The *moves are intended to* tighten management controls within the superstore group where trading has deteriorated *in the face of the US* recession. Tony Dignum (left), Dixon group finance director, will become president of Silo and is likely to spend about three quarters of his time in the US. **Page 22**

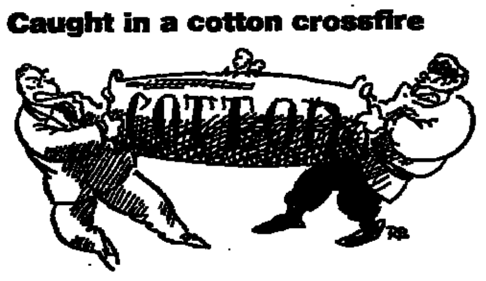
Polly Peck men quit

The resignations were *confirmed* yesterday of six directors of Polly Peck International, the fresh fruit and electronics group, and it has emerged that more boardroom departures could follow. Those to leave are executive directors Mark Ellis, David Fawcus and Radar Reshad, and non-executive directors Ulf Siebel, Neil Mills and Dick Halpin. **Page 22**

Dyno held back by Australia

Dyno Industrier, the Norwegian chemicals and explosives group, saw its profits slide last year to NKr247m ($43.3m) *from NKr371.2m in 1989.* The decline was due partly to a NKr90m write-off of Dyno Wesfarmers, an Australian explosives unit, and to lower profits from investments in shares. Despite uncertainty over the Gulf war and the world economy in general, Dyno's directors forecast a rise in profits this year. **Page 18**

Caught in a cotton crossfire



Cotton growers in the central Asian republic of Uzbekistan are caught in the crossfire over future cotton exports. The local parliament wants to withhold a large portion of the area's cotton crop as a means of giving it some finan*cial independence from Moscow. At the root of* the escalating dispute is anger over the very low price that the Soviet state pays for Uzbek cotton. **Page 28**

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Bayer-Hypo	348	+	18
Lufthansa	113	+	3
Metallgesell	422.5	+	10.5
Falls			
Goldschmidt(Th)	690	-	10
Porsche	715	-	20
Sprinkler Assi	862	-	10
NEW YORK ($)			
Rises			
Campbell Soup	67⅞	+	1⅞
Fieldcrest Cat.	11	+	1
Research Inds.	18½	+	1½
Falls			
Compaq	71⅛	-	1⅝
CBS	165	-	2⅞
Silicon Gphs	39⅞	-	1⅞

New York prices at 12.30pm.

PARIS (FFr)			
Rises			
Cetelem	605	+	14
Essilor	381	+	16
Gen Occident	608	+	25
Printemps Au	557	+	17
Total-Petroles	621	+	15
Falls			
SEC	598	-	18
TOKYO (Yen)			
Rises			
Isuzu	824	+	99
Shiseido	780	+	100
Tomoegawa Iron	1530	+	200
Falls			
Ebara Soger	675	-	45
Jidosha Buhin	609	-	45
Tokyo Cosmos	600	-	55

LONDON (Pence)							
Rises				Ocelibest	53	+	8
Brathwaite	112	+	13	Stadley	391	+	13
Budgens	48	+	8	Unitech	211	+	12
Compass Intl.	210	+	16	Wellcome	522	+	21
Carlton Comms	385	+	18	**Falls**			
Dares Ests	9¾	+	2	BP	309	-	5
EGC	389	+	18	Dickie (James)	11	-	3
Hammerson A	638	+	19	Kleinwort B.	330	-	13
Henderson Admn	650	+	32	LASMO	363	-	12
Hi-Tec	81	+	5	Reuters	749	-	20
Johnson Math.	280	+	11	WPP	64	-	8
Laporte	209	+	9				

British government issues its first Ecu bond

By Stephen Fidler and Simon London in London

THE British government *yesterday launched its first* bond denominated in Ecu, the composite currency of the European Community. It described the issue as an effort *to strengthen London's leading* position in a growing financial market.

Mr Norman Lamont, the chancellor of the Exchequer, *described the issue of Ecu2bn* (£1.4bn) of 10-year bonds as a landmark. "It shows the importance we attach to the strengthening of London's leading position in a growing market and demonstrates our commitment to the development of the Ecu," he said.

According to bond dealers, the issue – priced to yield fractionally less than a French government Ecu bond of the same maturity – met a strong response. There were some complaints which a shortage - one Japanese house reported it could have sold the entire issue three times over.

Officials described the issue as the latest in a series of moves designed to bolster London's position in the Ecu market, moves which included the launch two years ago of an Ecu Treasury bill programme.

Proceeds from the issue will supplement foreign exchange reserves although, since they stood at $38bn already, this was not the purpose of the exercise. There will be no implication for the Bank of England's domestic borrowing programme in sterling.

Bond managers said there was an enthusiastic response from clients, ranging from established buyers of Ecu bonds to UK institutions formerly shy of Ecu paper.

To encourage UK institutions to buy, the two dozen gilt-edged market-makers, which deal in sterling UK government paper, will be allowed to buy bonds at a concessional rate from the 24-strong main management group.

The choice of a US-owned institution, Morgan Stanley International, to lead the deal, raised some eyebrows. Bond dealers said the institution, whose chairman, Lord Richardson of Duntisbourne, is a former governor of the Bank of England, has not been the sole lead manager of an Ecu deal since 1989. However, Bank officials said the choice had been made on merit. In addition to having a record of leading bond issues for sovereign borrowers, Morgan Stanley has four bond dealers dedicated to making a market in Ecu bonds.

UK government Treasury bills denominated in Ecu have been issued since 1989. There is now Ecu3.6bn of paper outstanding, with Ecu1bn being rolled-over every month.

In addition, the London International Financial Futures Exchange is set to launch an Ecu bond futures contract on March 6. The new bonds – known as Ecu gilts – will be acceptable as settlement for the contract.

By *pricing the deal to yield* between 0.01 per cent and 0.04 per cent less than comparable French government paper, *dealers said the Bank is* playing on the scarcity of UK government paper in the international bond market.

The Bank has retained an additional Ecu200m of bonds for itself. These bonds may be lent or sold to market-makers if needed to improve the liquidity of the deal.

Issues of Ecu government bonds are not expected to be made regularly. However, there is a widespread expectation of further issues, given the *government's desire to develop* the Ecu market in London.

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Suez buys final 10% stake in La Générale

By George Graham in Paris

COMPAGNIE de Suez, the French investment group is to buy out the last remaining shares *in Société Générale de Belgique* from Cerus, the French holding company of Mr Carlo De Benedetti. Suez won control of the Belgian conglomerate two years ago after a protracted battle with Mr De Benedetti.

The deal values Cerus's remaining 9.96 per cent stake in La Générale at FFr2.05bn ($414m) or BFr1,950 a share, compared with an average acquisition cost of about BFr3,100.

Highlighting the group's finan*cial difficulties, Cerus also* announced yesterday a loss of about FFr2.2bn for 1990. Debt would be halved to FFr2bn with the sale of the La Générale holding, it added.

Officials in the De Benedetti group acknowledged the price was wholly unsatisfactory compared with the initial acquisition cost, but in the current environment, and with Cerus's need to reduce its debt, they said it was acceptable and fair. Cerus will *concentrate in future on its old* business of holding substantial stakes in industrial companies where it can exert operational control, they said.

The company also announced that Mr Alain Minc, its controversial chief executive, would resign this post in April, though he will remain on the board both of Cerus and of Mr De Benedetti's Italian holding company.

Cerus will transfer the La Générale shares to a subsidiary, Surec, which will, in turn, transfer them to Suez in return for new Suez shares.

Mr Gerard Worms, Suez chairman, said the company could in turn reduce the FFr2bn debt it would acquire with Surec in the years to come.

He said the increase in Suez's La Générale stake from 51 to 61 per cent would give him flexibility to consider a number of operations involving the Belgian conglomerate which it had previously had to refuse in order to maintain majority control.

Mr Worms also unveiled plans to absorb Compagnie La Henin, the property and foods holding company of which Suez already owns 44 per cent.

He said this deal would enable Suez to restructure the company and to decide whether to sell off or develop its holdings, which include Salins du Midi, the salt and wine company, and Européenne de Gastronomie, a grouping of smoked salmon and foie gras companies.

Suez has already indicated it intends to maintain its earnings flow in the years to come by keeping up a high rhythm of asset sales, and stockbrokers expect the La Henin subsidiaries to feature at the top of the list for disposal.

Mr Patrick Ponsolle, Suez managing director, said La Henin's asset value could be estimated at about FFr4.5bn, but that it was likely to have lost more than FFr200m in 1990.

Suez's offer of seven of its own shares for four of La Henin's was lower than the 2:1 offer the stock market expected, but Mr Ponsolle said it represented a fair parity with a premium of about 10 to 15 per cent for minority shareholders.

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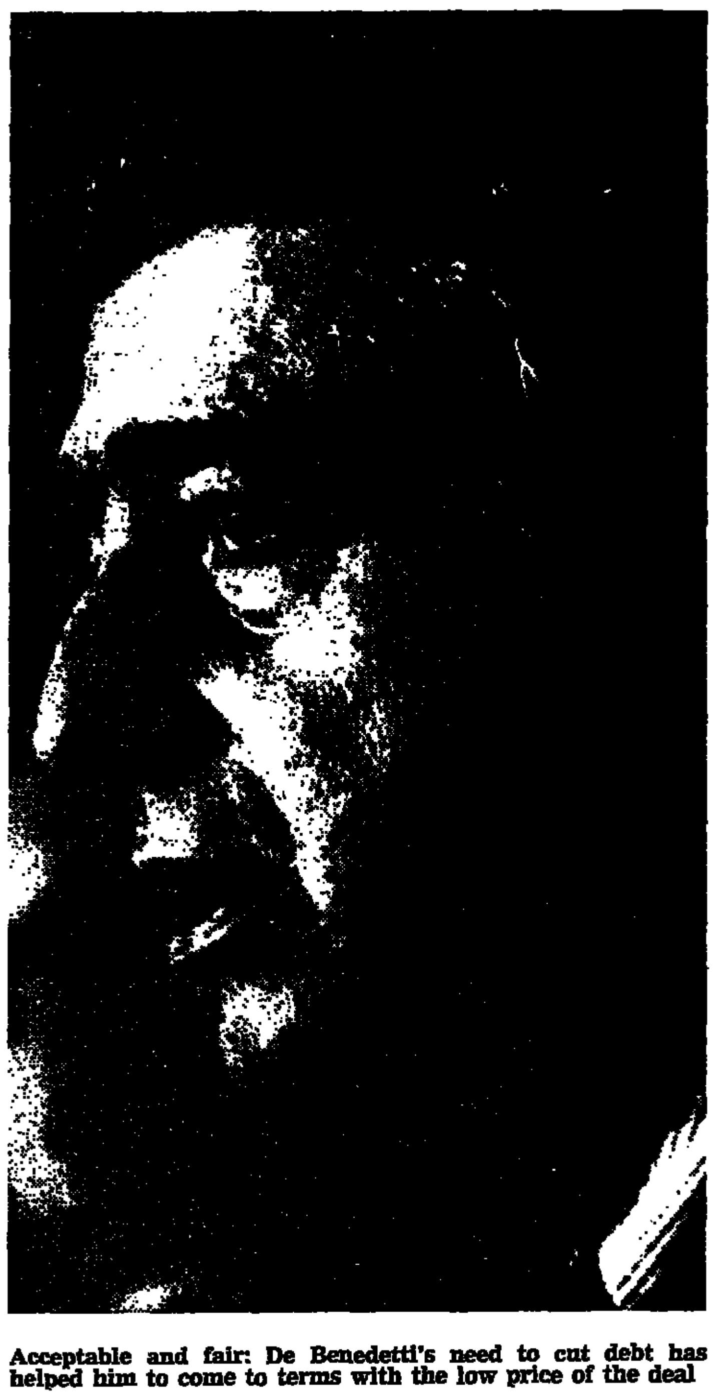

Acceptable and fair: De Benedetti's need to cut debt has helped him to come to terms with the low price of the deal

Hanson rises 7% but warns on recession

By Maggie Urry in London

HANSON, the diversified conglomerate, warned yesterday of the effect the recession is having on the group.

The cautionary note was sounded in a statement accompanying Hanson's first-quarter results which showed a 7.1 per cent rise in pre-tax profits from £225m ($448m) to £241m in the three months to end-December. The results were distorted by a number of changes. In his statement Lord Hanson, chairman, said "no one is recession proof and it is still too early to forecast how this will influence our own results for the rest of the year".

Analysts contrasted this with the statement in the annual report, written in early December, which said "we are confident that our good record will continue". One described the first-quarter statement as the most downbeat he could remember from Hanson. The share price slipped 1¾p to 215p yesterday.

Mr Martin Taylor, vice-chairman, illustrated the effect of the recession by saying that Hanson had this week mothballed two of London Brick's kilns and laid off 150 people there. He thought yesterday's cut in base rates would not by itself improve the UK economy. But he was hopeful the cuts already made in US interest rates might lead to a quicker upturn in the US economy.

Lord Hanson said "our greatest advantage is the strength of our balance sheet including our cash resources". Analysts have been expecting the group to use its cash and borrowing powers to fund a large acquisition, but Mr Taylor refused to be drawn on its plans. Meanwhile, Hanson can profit from borrowing in the US and depositing cash in the UK at higher interest rates.

The group's turnover for the quarter rose 5.5 per cent to £1.92bn. Pre-tax profits benefited from an interest saving of £24m compared with the same period, *following the conversion into* shares of a £1bn bond a year ago.

However, Mr Taylor said there was a £14m negative effect from the weakness in the dollar on translating the group's US profits, which were 42 per cent of group operating profits in the last financial year. Stripping out these two factors from the comparable figure would give a profit increase of 2.6 per cent.

The group lost about £2m of profits from Tucker, the housewares business sold last year, but this was more than made up by the profits from Peabody, the US coal group bought last year, and a three week contribution from Cavenham Forest Industries which Hanson acquired through a $1.3bn swap for its 49 per cent stake in Newmont Mining.

Mr Taylor said the underlying performance of the continuing businesses had been "pretty much even".

After a lower tax rate of 22.4 *per cent (24.0 per cent) there was* an extraordinary profit of £49m, largely from the sale of Tucker, but this was well down on the £182m gained in the comparable quarter from asset sales.

Undiluted earnings per share fell from 4.3p to 3.9p, largely because of the extra shares in issue from the convertible bond. Fully diluted they were unchanged at 3.9p.

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Northern Telecom regroups European and Asian units

By Bernard Simon in Toronto

NORTHERN TELECOM, the Canadian telephone equipment maker, will give its recently-ac*quired British subsidiary STC* a broader European focus under a worldwide reorganisation announced yesterday.

The company is splitting its *three-year-old World Trade* division into two units, one of which will be a marriage between STC and Northern's existing European interests.

Dr Paul Stern, Northern chairman, said the move should strengthen STC's position in countries such as France and Germany, where Northern has made inroads lately.

The new unit will have annual revenues of about US$3bn from telecommunications equipment, more than half of which will be contributed by STC.

The restructuring also includes the creation of an Asia-Pacific division, based in Tokyo, and integration of the company's worldwide engineering, manufacturing and research activities. Sales, marketing and service will continue to be handled on a country-by-country basis.

The STC/Northern Telecom Europe unit will be headed by Mr *Desmond Hudson, who spear*headed Northern's explosive growth in the US in the early 1980s and was more recently head of the World Trade division. An *STC* executive, *Mr Roy Gardner* will be chief operating officer. STC's current chairman Mr Arthur Walsh will be non-executive chairman of the new unit.

Northern offered £1.3bn ($2.58bn) last November for the 73 per cent of STC which it did not already own. The operations of the two companies are expected to be fully integrated by the end of March.

Mr Stern said the integration of the manufacturing and research activities will not lead to immediate plant closures or layoffs, but that "I'm sure we'll find some duplication of effort later".

The integration effort is likely to be concentrated on the US and Canada, where several factories *on each side of the border* produce the same items.

Three main global product groups are being created for public switching networks, private *networks and wireless systems.* The latter will include cellular telephone equipment.

Northern's revenues totalled US$6.8bn last year. Earnings were a record $460.2m, but tailed off markedly towards the end of the year.

Explaining the changes, Dr Stern said "deregulation is occurring at a rapid pace in the majority of markets we serve. Our customers are demanding new levels of service and support".

Ball quits as chief of Pru-Bache

By Patrick Harverson in New York

MR GEORGE BALL yesterday stepped down after nine years as chairman and chief executive of *Prudential-Bache Securities, the* troubled Wall Street securities house, ending months of speculation that he would resign.

Pru-Bache immediately announced that the post of *chief* executive would be filled temporarily by Mr Robert Beck, chairman of Prudential Insurance, Pru-Bache's parent company. Mr Arthur Burton, another Prudential executive, was named acting president of Pru-Bache.

The firm's poor performance in the past two years as it struggled to establish a sizeable foothold in the securities business led industry analysts to predict that Prudential would call for the removal of Mr Ball.

In December Pru-Bache revealed it would lose $250m in 1990, one of the largest losses in *Wall Street's history.* In 1989 the company reported a loss of $51m.

The 1990 losses were blamed on four businesses – investment banking, limited partnerships, *risk arbitrage and Canadian* operations – which Pru-Bache had either cut back or withdrawn from during the year.

The biggest blow to Mr Ball's reputation was Pru-Bache's decision in November to scale down dramatically its investment banking operation, a move which led to 120 investment bankers losing their jobs.

In 1989 Mr Ball had launched a campaign aimed at transforming Pru-Bache into a top US investment bank.

The failure of Pru-Bache to become a leading force on Wall Street has proved a big drain on the resources of Prudential Insurance, the parent group which bought the securities house in 1981 for $385m.

Since that acquisition industry *analysts calculate that* Prudential has invested more than $1bn in Pru-Bache.

The recent problems at Pru-Bache and the restructuring of *its business are estimated to* have cost Prudential $370m in 1990 alone.

Mr Ball's resignation is the first departure from the top *ranks of Wall Street securities* houses for a while. The last was over a year ago, when Mr Peter Cohen was forced out as head of Shearson Lehman Brothers.

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INTERNATIONAL COMPANIES AND FINANCE

Club Med poised to take control of rival tour group

By George Graham in Paris

CLUB MEDITERRANEE, the leading French holiday village group, is to take control of Club Aquarius, its smaller rival, and the latter's air charter subsidiary, Air Liberté.

Mr Gilbert Trigano, founder and chairman of Club Med, said the price for the deal had not yet been fixed and would depend on an audit to be completed by June. Nevertheless, the deal was irrevocable.

He said Club Med's board had approved a FFr417m ($84.2m) rights issue, at a price of FFr425 a share, although it was not clear when this capital increase would take place.

Mr Lotfi Belhassine, the founder and 76 per cent owner of Aquarius, will develop Club Med's activities as a tour operator, with the aim of rivalling the big tour operators of the UK and northern Europe.

The deal was encouraged by Mr Robert Lion, chief executive of the Caisse des Dépôts et Consignations, the state financial institution which has led the restructuring of France's tourism sector.

"The challenge we are confronted by is not purely French; France's touristic presence is important in the framework of Europe and of the world," Mr Trigano said.

Aquarius manages 13 holiday villages in France and the Mediterranean basin, with a total of 7,000 beds, compared with Club Med's 115,000 beds. The two brands will continue to be sold separately.

Air Liberté, with nine aircraft, will be joined with Minerve, the air charter company in which Club Med last year took a 50 per cent stake.

Wickes launches £42.6m cash call

By John Thornhill in London

WICKES, the UK do-it-yourself retailer and timber group, yesterday revealed the damaging legacy of its acquisition of Hunter Timber and launched a one-for-one rights issue to restore its eroded capital base.

The company said that in 1990 it had made a pre-tax loss of £7.85m ($15.6m), against a profit of £38.06m, after taking exceptional losses of £13m, mainly resulting from the reorganisation of Hunter Timber, which it acquired for £283m in 1988.

The issue of 138.84m new shares at 32p will raise about £42.6m, after expenses, and will reduce the company's borrowings and enable it to expand its retailing business.

Unusually after a rights issue, the share price, which has already drifted upwards recently, climbed again yesterday to close 4p higher at 52p.

Mr Steve Oldfield, retailing analyst at Smith New Court, explained the rise by saying: "With the anticipation and now the reality of some cut in base rates the market is on the hunt for highly-geared recovery plays."

Less than a year ago, Wickes's share price stood at more than 170p.

The rights issue has been underwritten by S. G. Warburg, but Mr Henry Sweetbaum, chairman of Wickes, said: "Most of our major shareholders have indicated to us that they are going to be very supportive."

In 1990, Wickes's operating profits fell from £59.01m to £26.54m barely covering the interest payments of £21.48m against £21.12m.

After making pre-tax profits of £6.09m in the first half, the group traded at a loss of £940,000 in the second half.

Losses per share amounted to 4.5p compared with earnings of 21.6p in the previous year.

The final dividend is omitted, although there was an interim pay-out of 1p. Last year, the total dividend was 4p.

Norway set to gain Japanese investors

By Karen Fossli in Oslo

NORWEGIAN companies that stand to gain from an integrated European market, those which have close business contacts with eastern Europe, and the largest companies whose shares are most liquid will generate increased interest by Japanese investors, according to Mr John Howland Jackson, deputy president of Nomura International, the big Japanese investment firm.

Mr Jackson warned that the well-publicised difficulties in Norwegian banking, with limitations on the size of the Norwegian market and foreign ownership restrictions, could add to investor nervousness.

Although there had been a well-conducted Norwegian economic revival over the past couple of years, there were still a few problems to solve. But industrial competitiveness had improved and the country was on a promising path which could boost its attractiveness to Japanese investors, he said.

Mr Jackson said that because of these improvements, "before long Norwegian equity and credit will be sought at a premium to that of other Nordic countries".

Most Japanese life assurance companies and trust banks have directed their interest in Nordic shares through London, where a range of free shares of Nordic companies trade actively.

Although the Norwegian market has a high turnover in a Nordic context, it is viewed by some to be a "boom or bust" market in which players take highly leveraged short-term positions disregarding fundamentals.

Mr Jackson said that liquidity risk was substantial, given the limited support domestic investors could provide and the restricted foreign access.

The concentration of industries in Norway also limits the availability of foreign ratings and access to substantial foreign funds to a small number of companies. But, Mr Jackson believes, the abolition of turnover taxes and relaxation of foreign ownership rules has helped to promote Nordic equity to Japanese investors.

Cerus pays high price for bold adventure

Haig Simonian and George Graham on Carlo De Benedetti's ill-fated move into France

During the last three years, the wheel has not stopped turning for Cerus, the French holding company of Mr Carlo De Benedetti. Now it seems to have come to a halt, but at the bottom of the cycle.

Last year, Cerus's share price plunged by 73 per cent. Its market capitalisation today is no more than FFr3.2bn ($647m), exactly where it stood three years ago and less than half the peak it reached at the end of 1988.

Yesterday, Cerus finally sold off the last of its holding in Société Générale de Belgique, the Belgian conglomerate of which it tried unsuccessfully to take control in 1988, and which has ever since hung albatross-like around its neck.

As if to mark the end of the chapter, Mr Alain Minc, Cerus's chief executive and resident brains trust, is to leave the company, although he will remain associated with Mr De Benedetti. It was Mr Minc who built Mr De Benedetti's name in France, and whose idea it was to launch Cerus into the attack on La Générale, only to be thwarted by the white knight Suez.

In his heyday, Mr De Benedetti aroused widely diverging opinions in the European business establishment.

For some, he was a European visionary, building a trans-European holding company with the political and financial clout to support a set of industrial and financial subgroups, each with its own strong business logic.

Others, especially in his native Italy, saw him as making temporary use of a wide range of industrial stakes with the aim of becoming Europe's top investment banker.

The most cynical, however, saw him as a respectable industrialist turned arbitrageur, raiding his way to riches on the back of a stock market boom, even if, from time to time, he got involved in industrial management.

Viewed at its simplest, the Benedetti system chalked up its successes. Raising equity cash at high multiples on the stock exchanges of Europe, the group was able to take effective control, or at least influence as "shareholder of reference", in some significant industrial companies.

Yves Saint Laurent, the Paris fashion house, owes it to Cerus that it was able to raise the finance to buy back its perfume brands for $630m in 1986.

Valeo, the French motor components group, was able to end a period of losses largely through an injection of cheap Cerus capital which allowed it to cut debt costs – as well as through the tough management style of Mr Noël Goutard, brought in by Cerus to run the company in 1987.

The stock market crash of 1987 paved the way for Cerus's greatest gamble, the 1988 attack on La Générale, by reducing the flabby Belgian conglomerate's share price, but it also undermined the De Benedetti technique by making it more difficult to raise fresh equity funding.

But Cerus had also created its own funding difficulties over the years by its often cavalier treatment of shareholders. In 1988, in the middle of the La Générale battle, Cerus had to back down from an attempt to sell the assets of Buitoni, the food group, to Nestlé. This would have left minority shareholders with a stake in a shell company and Cerus with a pile of cash.

The company also ran into trouble with the Commission des Opérations de Bourse (COB), the French stock market regulator, over its bid for Duménil Leblé, the investment bank, which valued the target at 40 per cent less than Mr Minc had earlier claimed as its economic value. Cerus was later forced to raise its bid.

With an outright bidding battle for La Générale, Cerus would have been safe, for when it found its bid was topped by Suez, it could have sold out. Belgian stock market rules, however, allowed both sides simply to scrabble away for shares; when Suez won, it was under no obligation to buy the loser's holding.

The Cerus story since then has been clouded by the costs of carrying the La Générale shares. Last year, it managed to unload about 5 per cent of La Générale to Suez and other investors. It also sold its stake in Arnault et Associés, the holding company which controls the dominant stake in LVMH, the drinks and luxury goods group. And it is looking for a buyer for its remaining stake in Saint Laurent.

Meanwhile, Mr De Benedetti is facing problems at home, where Olivetti, the struggling typewriter concern which he transformed into one of Europe's top computer groups, has seen its position slide.

The battle for Mondadori, Italy's leading publishing group, has opened a second front for him to contend with. After successfully fighting off Mr Silvio Berlusconi, the Italian media magnate, last year, his position is again under siege following last month's appeal court decision favouring the Berlusconi side.

The settlement will have further tarnished Mr De Benedetti's reputation as a dealmaker, but he will have the smaller Cerus empire more closely under his control.

Carlo De Benedetti (left) and Alain Minc: association will remain despite latter's resignation

Dyno hurt by NKr90m write-off

By Karen Fossli

DYNO INDUSTRIER, the Norwegian chemicals and explosives group, yesterday announced a slide in 1990 profits, before year-end adjustments, to NKr247.6m ($44m) from NKr371.2m in 1989.

The decline was due partly to a NKr90m write-off of Dyno Wesfarmers, an Australian explosives unit, and to reduced profits from investments in shares. "The corporation's share dealings did not equal the good results achieved in 1989. If we exclude the write-off in Australia, Dyno's results are acceptable in light of this situation," the company said.

Directors forecast a rise in profits this year.

Dyno announced the NKr90m write-off last December and forecast profits for 1990 of NKr260m.

Group operating income and operating profit increased by 14 per cent to NKr7.1bn and NKr532.3m respectively.

On a divisional breakdown, explosives, which comprises 47 per cent of Dyno's turnover, saw profits slip to NKr123m from NKr125m on sales of NKr3.34bn.

The chemicals division, which accounts for 28 per cent of group sales, increased profits to NKr164m from NKr131m on sales of NKr2bn. Profits in plastics dropped to NKr38m from NKr55m on sales of NKr1.372bn, but 1989 profits included NKr12m in gains on the sale of property in the UK.

The machinery unit reversed losses of NKr11m in 1989 to be NKr5m ahead in 1990.

Nora Industrier advances

By Karen Fossli

NORA INDUSTRIER, the Norwegian food and drinks company, yesterday announced a rise in 1990 profits, before extraordinary items, to NKr583m ($102m) from NKr456m in 1989.

Group operating profit increased to NKr450m from NKr370m, while group turnover rose to NKr7.4bn from NKr6.8bn. Net finance costs reached NKr80m, while other income amounted to NKr220m.

Nora said that units within the group's three core areas all saw increased profits. The drinks division, including the Norwegian Tou brewery, improved operating profit by NKr18m to NKr150m, while the condiments division increased operating profits by NKr23m to NKr130m.

The chocolate and confectionery division, including Nidar, one of the UK, improved operating profits by NKr19m to NKr57m.

The board proposed to raise the dividend to NKr4.50 a share from NKr4 a share.

INTERNATIONAL COMPANIES AND FINANCE

Insurance groups report year slide

By Nikki Tait in New York

THREE sizeable US insurance groups yesterday unveiled lower profits for 1990. Two of the companies also reported a fourth-quarter downturn.

Aetna, the Hartford-based company, announced that it made a profit of $141.9m in the final three months of 1990, compared with a $150.6m gain in the same period a year earlier.

Coupled with lower figures in earlier periods, this reduced full-year profits to $614.1m against $676.4m in 1989.

However, the 1990 figures included realised capital losses of $81.7m, compared with realised gains of $109m in 1989. Aetna said that the full-year results still bore the impact of a $60m charge in the third quarter to cover corporate reorganisation.

The company's chairman, Mr James Lynn, said that the full-year results benefited from strong earnings in group insurance.

The personal motor side had continued to suffer from rising loss costs and inadequate rates, but lower natural catastrophe losses helped the personal property-casualty results.

Commercial insurance and reinsurance operations were profitable, although pricing was still soft.

He added a warning that problems in the property market were still affecting earnings.

"We believe that our mortgage loan reserves are set at appropriate levels, but we cannot predict where the economy is headed or how the mortgage loan and real estate portfolios would be affected by various economic circumstances."

Chicago-based CNA Financial Corporation announced net earnings of $365.5m in 1990, down from $613.5m in the previous year.

With net realised investment losses/gains excluded, the 1990 figure stood at $396.1m against $467.8m.

CNA's fourth-quarter profits, however, edged up to $64.6m from $55m.

Mr Larry Tisch, who chairs CNA, suggested that the results should be seen against the back-drop of the prolonged down-cycle in underwriting in the property/casualty sector.

At Continental Corporation, there was a fall in full-year profits to $141.1m from $153.1m, with the fourth quarter showing a drop to $53.1m from $71.4m.

Net premiums written fell to $4.5bn from $4.8bn, and Continental said there had been weak pricing in standard insurance lines. As a result, it had concentrated on renewing profitable commercial and package accounts.

"Monoline" exposures, such as vehicle or personal liability business, showed double digit declines for a second year, it said.

● Cigna, the US insurance group, said that as part of its move to expand into international markets, it had acquired a "significant interest" in Seguros Progreso, a Mexican property-casualty insurance firm, for an undisclosed price.

Cigna said the Mexican insurance market was worth about $2bn and included a large base of multinational customers such as US, European and Japanese businesses.

GM units unveil record results

By Karen Zagor in New York

ELECTRONIC Data Services (EDS), a leading US data processing and communications systems company, yesterday unveiled record fourth-quarter results and strong growth for the full year.

The company, which is a wholly-owned subsidiary of General Motors, said its fourth-quarter net income grew 12 per cent to $133.4m, or 56 cents a share, from $119.5m, or 50 cents, on sales ahead 19 per cent at $1.71bn.

The company's earnings are used to calculate the earnings per share of General Motors Class E common stock.

For the whole of 1990, EDS had net earnings of $496.9m, or $2.08 a share, up 14 per cent from $435.3m, or $1.81, in 1989. Revenues surged 12 per cent to $6.11bn from $5.47bn.

EDS is one of the few US companies to benefit from the US recession as companies cut costs by using outside companies for their data processing work.

During the fourth quarter EDS signed a number of large new contracts and made several new business alliances, both in the US and overseas.

GM Hughes Electronics, another wholly-owned General Motors subsidiary, also reported record fourth-quarter results yesterday.

The Detroit-based company, which operates in the aerospace, telecommunication and automotive industries, had net income of $185.6m on revenues of $2.94bn against $183m on revenues of $2.89bn a year earlier. Earnings attributable to GM Class H common stock were 49 cents a share in the 1990 quarter compared with 46 cents last year.

For the year, the company's net income slid to $726m, or $1.82 a share, from $781.2m, or $1.94, in 1989. GM Hughes attributed the decline to reduced defence spending and declining vehicle production which were only partly offset by cost reduction efforts and increased electronic components in GM vehicles.

Revenues in 1990 grew to $11.7bn from $11.4bn.

IBM signs product link agreement with Novell

By Louise Kehoe in San Francisco

IBM, the world's largest computer maker, has signed a product licensing, distribution and support agreement with Novell, a leading developer of computer network software.

The companies also agreed to develop products that will make it easier to link Novell and IBM networks.

"Novell has been very successful in selling its technology to IBM customers for a long time," said Mr James Cannavino, IBM vice-president and general manager of IBM's personal systems division. The agreement will resolve concerns among customers who have both IBM and Novell networks and want to make them work together, he said.

IBM sells competing local area network software developed by Microsoft. IBM's sales force will now offer Novell as an alternative. "There is room for both," said Mr Cannavino.

The agreement with Novell will remove an impediment to market growth caused by "customers wrestling with conflicts" over local area network software, he suggested.

The agreement represents an opportunity for Novell to expand its market, analysts said. The networking company has established itself as a leading supplier of software to small businesses and departments within large corporations. With IBM's support, Novell software will become an acceptable standard for use throughout large corporations, they predict.

The deal is seen by some as a signal of a deteriorating relationship between IBM and Microsoft, which in addition to providing IBM with local area networking software is the developer of IBM's personal computer operating system software.

Mr Cannavino said, however, the Novell agreement was "in no way a response to purported relationship problems with Microsoft". Co-operation between IBM and Novell on network software development has been going on for the past two years, he added, and predates recent announcements that IBM and Microsoft are taking different paths on operating system software.

Cincinnati Milacron in the red

By Nikki Tait in New York

HEAVY restructuring charges, partly related to UK operations, have pushed Cincinnati Milacron into losses for the fourth quarter and 1990 overall. The company, one of largest US machine tool manufacturers, also warned it would stay in the red in the first quarter of 1991, although it said this loss would probably be small.

Cincinnati's after-tax deficit in the final three months of 1990 amounted to $31.5m, compared with a $435,000 loss in the same period a year earlier.

This brought the net deficit for the year to $24.3m, against a $17.4m profit in 1989. Revenue was marginally higher at $837.7m ($820.1m).

But the damage stemmed largely from a special after-tax charge of $31.1m, most of which fell in the final quarter, and a $2.14m loss from discontinued laser machine and robot operations.

Cincinnati said about half the charge related to the reorganisation of its grinding machine operations, involving cost-cutting at a Massachusetts factory and the closure of a plant in the Netherlands.

The rest covers the elimination of certain product lines at a Birmingham, England, plant and the reorganisation of LK Tool, a British subsidiary.

The US parent said both businesses sold a significant tranche of their products back into the US market and had been hit by sterling's appreciation. The LK Tool restructuring, however, involves a relocation of its US operations to Detroit only, and discontinuance of some older product lines.

Cincinnati expects a small loss in the first quarter.

Occidental to shed 1,000 staff

By Karen Zagor

OCCIDENTAL Petroleum, the US oil company undergoing an upheaval following the death of Dr Armand Hammer, its chairman for 33 years, yesterday said it would cut about 1,000 jobs by the end of September.

The move is part of its recently-announced restructuring plan.

Dr Ray Irani, who succeeded Dr Hammer, said: "These cuts are in addition to any reductions in headcount that will result from our asset sales programme."

The job losses will come from both company headquarters and operating divisions "and are a necessary part of our continuing focus on reducing costs".

Occidental took a $2.05bn restructuring charge against fourth-quarter earnings to cover expected losses due to: severance payments to employees made redundant; environmental costs; leaving unprofitable businesses; and carrying reductions in stock value.

The company hopes to save about $100m yearly through the job reductions.

Scitex doubles earnings again

By Hugh Carnegy in Jerusalem

SCITEX, an Israeli leading computer graphics maker controlled by Mr Robert Maxwell, the British publisher, yesterday reported a 117 per cent rise in net profits in 1990 to US$76.8m, the second year in succession the company more than doubled earnings.

Sales rose by almost 50 per cent to $351.5m over 1989 on continued success for its computer imaging systems for the printing and publishing industries. Mr Maxwell became the largest shareholder when he bought a 27 per cent stake in Scitex for $40m in early 1989 just as the company emerged from a financial crisis to become one of Israel's most prestigious outfits.

Mr Giora Bitan, Scitex's finance director, admitted the company was "like a boxer expecting a blow on the jaw" from the economic downturn in the US and Europe, which account for about 80 per cent of sales.

But he said that there had been no sign of softness in the market. There had been some disruption of senior executive travelling plans because of the Gulf war. He said the war had had no significant effect on operations in Israel, where the company has its headquarters and main R&D and manufacturing functions. He was confident of "more than reasonable profit margins" in 1991.

Although Scitex's main big-name customers, such as Mr Maxwell's Mirror Group and the New York Times, were newspapers and publishers, Mr Bitan said the mainstay of the business was smaller scale companies in pre-press processing and commercial printers.

Last year, the company spent $28m on R&D and $60m on marketing, the latter up from $39m in 1989. Profits before tax were $97.4m, up from $40m.

The balance sheet showed cash reserves of $157m. Earnings per share were $2.10 and the total 1990 dividend was set at $0.295 per share.

Toronto-Dominion loses AAA rating

By Bernard Simon in Toronto

MOODY'S, the New York credit-rating agency, has stripped Toronto-Dominion Bank of its Triple-A borrowing status, leaving only two North American banks in its top league of creditworthiness.

Moody's said it was downgrading TD's long-term debt by one notch to double-A1, mainly because of the bank's heavy exposure to the Canadian industrial heartland of southern Ontario, where the recession is biting particularly hard.

The bank was the only Canadian bank with a Moody's triple-A rating. The two US banks which still have that status are Morgan Guaranty of New York and Wachovia Bank & Trust of North Carolina.

TD, Canada's fifth-biggest bank with assets of C$66.9bn (US$58bn) at the end of its last fiscal year, has long been regarded as one of the country's best-managed financial institutions.

It was the only one of the big six banks which resisted the temptation to buy a securities firm after ownership barriers were lifted in mid-1987, and instead started an in-house securities business at far less cost than its competitors.

MAS to sell 23.4% stake in helicopter unit

By Lim Siong Hoon in Kuala Lumpur

MALAYSIAN Airline System (MAS), the national carrier, has agreed to sell its 23.4 per cent stake in one of its units, Malaysian Helicopter Services, to consumer products group Roxy Electric Industries.

The M$111m (US$41.24m) deal has come at a time when MAS is under severe pressure to lower costs, to finance its fleet renewal, and from a weakened air passenger market. Late last year, the government refused its request to raise fares on domestic routes.

The sale will raises Roxy's stake in the helicopter company to 33 per cent, the level required under local equity rules to make a general takeover bid.

Roxy, a financially ailing group with 1989 sales of M$40m, is being reorganised to deal with M$124m losses.

It has agreed to sell a 9 per cent stake in Development and Commercial Bank, a domestic bank, for about M$23m.

Standard Bank turns in earnings of R423.6m

By Philip Gawith in Johannesburg

STANDARD Bank, South Africa's largest banking group, overcame difficult market conditions to record improved earnings in the year to December 1990.

Net income after tax rose by 23.9 per cent to R423.6m ($167.7m) while total assets increased by 14.2 per cent to R45.5bn from R39.8bn. Net interest income rose by 23.6 per cent to R1.55bn, while other operating income was 21.1 per cent up at R1.06bn. Advances were 15.9 per cent higher at R36.1bn.

Earnings per share, including income from associated companies, rose by 24.1 per cent to R4.22 cents a share from R3.40 cents. This performance compares well with Standard's main competitors and is reflected in Standard's superior market rating. It currently stands on a dividend yield of 3.9 and a P/E of 8.3.

Mr Henri de Villiers, chairman, and Mr Conrad Strauss, group managing director, said that tight control over money supply, together with high nominal interest rates had brought about a progressive softening of demand as the year advanced.

Lending grew by only 6.3 per cent in the first half of the year. The bank experienced severe pressure on margins in the first half which eased partially in the second half. However, widening interest margins had been partly offset by rising bad debt charges.

Specific debt provisions rose to R177.2m from R80.9m. The bank said this reflected deteriorating business conditions in almost all sectors of the economy. Its general debt provision at the year end stood at R368m, equal to 0.94 per cent of loans, advances and customer acceptances.

Mr de Villiers said precise forecasts were difficult in the circumstances, but the group was budgeting for real earnings growth in 1991. The dividend was lifted by 18.8 per cent to 133 cents per share from 112 cents.

Sri Lanka forms venture capital company

By Mervyn De Silva in Colombo

SRI LANKA'S first venture capital company has been formed with Malaysian participation and support from USaid, the US international development agency.

Equity Investments Lanka Limited (Equill) has been sponsored by the Commercial Bank of Ceylon which holds 33 per cent of its initial issued capital. USaid has given US$450,000.

The other main shareholders are Singer (Sri Lanka) and Acme Aluminium. The only foreign shareholder is Antah Overseas Holdings, of Malaysia, which is a leading shareholder of the Arab Malaysia Bank, and holds the franchise for Pepsi-Cola in Malaysia.

Equill's chairman is Mr S. Kwickremasingha, former chairman of the Ceylon Tobacco Company, said: "The setting up of Equill is a direct response to the industrialisation policy paper published by the industries ministry."

Metall plans to raise C$65m

By Bernard Simon in Toronto

METALL Mining, the Toronto-based mining subsidiary of the German metals group Metallgesellschaft, plans to raise C$65m through an issue of shares and warrants.

The company said it would offer 5m units, each comprising one common share and half a warrant for a common share, at a price of C$13 apiece. The issue, led by Toronto securities dealer Burns Fry, will be available in Canada and Europe.

Philips sees promise in China affair

John Elliott on the lead being taken by the electronics group in Asia

PHILIPS, the Dutch electronics group, is emerging as one of China's largest foreign investors, with a capital commitment of about US$200m tied up in nine manufacturing and assembly joint ventures, all scheduled to be operating by early next year.

The ventures involve a total investment of $400m to $500m, including working capital, and are mostly in consumer electronics and components. They stem from a decision taken by Philips in 1985 to commit itself to a significant presence in China and do not appear to have been affected by the group's international financial problems and cuts, although there are no further fixed expansion plans.

"It was a strategic decision in 1985," says Mr Cees Seelen, chairman of Philips China Hong Kong Group. "We knew it would take five to 10 years to build up profitable joint ventures, but Asia was growing rapidly and we decided we would like to establish a position in China because it will play a substantial role in this part of the world."

Philips' equity stakes range from 30 to 60 per cent, but most are on a 50-50 basis. Mr Seelen says he is not much concerned about the size of the stake within the range because "the exact percentage figure is not important in China in terms of shareholder power in the way that it is in the west".

Since Philips took its decision in 1985, investment in China has become less fashionable as the international euphoria about its economic liberalisation has waned and joint ventures have failed to meet expectations. Profits have emerged slowly and operations have been swamped by problems involving foreign exchange, shortages of materials and bureaucratic hassles.

However, Philips has selected products that the government wants to encourage and so far three joint ventures in full operation are making profits.

"The Chinese government is becoming much more selective in choosing its joint ventures but there is an open dialogue and if you have a good project you get the backing," says Mr Seelen.

"But it is not the case, as some people think, that you can easily sell low-end products in China. The people are careful how they spend their savings and generally want the best and the latest, and they are well informed on what is available in China and abroad."

This lesson was learned during last year's economic retrenchment at Beijing Philips Audio Video Corporation which opened in the capital in 1987 making stereos and other audio equipment.

"We had to do a bit more in order to sell and change to more sophisticated products to make them more attractive. So we went up-market and put new models in," says Mr Seelen. He says that it takes some six months or more to change a product range in China – which is far longer than elsewhere.

Availability of foreign exchange, with export requirements, have posed big problems for many foreign companies, but Philips claims it can operate within a government framework that includes a requirement gradually to localise production of components.

"It's a question of how you manage and control the problem," says Mr Seelen, but adds that there can be greater problems raising local currency.

'It is not the case, as some people think, that you can easily sell low-end products in China. The people are careful how they spend their savings and want the best . . and they are well informed on what is available in China and abroad'

Some companies prefer to shun partners and go for 100 per cent ownership and greenfield sites. Philips, however, prefers to build a facility with a partner which already runs an older factory.

"To start afresh is not always an advantage," says Mr Seelen. "You need people and an infrastructure. It's not easy in China to look after everything yourself and you need a core of people and knowledge."

This is illustrated by the biggest investment – a $180m television picture tube factory called Hua Fei Colour Display Systems at Nanjing, capital of the eastern province of Jiangsu where there is a concentration of electronics factories.

Philips has a 30 per cent stake, and its partners are the local Huadong Electron Tube Factory, and Novel Technology, a Hong Kong company with strong Peking connections. Hua Fei, opened three months ago, is one of four colour television tube factories licensed by Peking after international tendering – the other three are Japanese.

The Nanjing factory has only a small export target of "well under 10 per cent" because Peking wants the colour television tubes for import substitution, and there is a component localisation target of 50 per cent within five years.

The latest, smallest, and lowest technology venture is a $5m factory called Philips Domestic Appliances and Personal Care Company. This will start making products such as shavers, irons and hair dryers this year in the special economic zone of Zhuhai, adjacent to the Portuguese enclave of Macao, near Hong Kong.

Zhuhai has been the least active of China's special zones, but is now attracting some high technology projects from places such as Japan. "It has good communications, is not crowded yet and has no electricity or labour problems," says Mr Seelen.

Philips sees the joint ventures as part of a development which includes subcontracted processing work in the southern Chinese province of Guangdong and five factories (up to 20 years old) in Hong Kong. Its servicing and managerial base is also in Hong Kong and there are 7,000 employees in the region.

"We anticipate more integration between Hong Kong and China," says Mr Seelen. "You must tie them together so in the long run they grow together."

Norway to auction half of NKr12bn issue

By Karen Fossli in Oslo

NORWAY'S finance ministry has instructed Norges Bank – the central bank – to issue a five-year, NKr12bn bond to help finance state needs in 1991. It is the first such issue since 1986.

The ministry said the loan will have a five-year maturity, with no repayments until maturity, and a coupon of 10 per cent. Half of the loan will be auctioned through Norges Bank, with the remainder taken by Norges Bank and the state pension fund, the ministry said.

The effective interest rate will depend on the result of the auction. The deadline for bids is set for February 21 with the results to be announced on February 22. The payment date is set for February 28.

Mr Sigbjoern Johnsen, the finance minister, said the bond will help to improve the Norwegian second-hand bond market because the loan widens the spectrum of bonds on offer.

The ministry said that a reduction of liquidity which the loan will create in isolation will be counter-balanced by the central bank's operations in the money market.

Mr Sigurd Klakeig, a finance ministry official, said that the central bank yesterday auctioned NKr6bn in F-loans (fixed loans) to Norway's banks. The loans have varied maturities between one and 12 months.

He said that the overall gross financing requirement in 1991 of the Kingdom of Norway is NKr51.3bn. "But the Kingdom has substantial cash reserves of between NKr70bn and NKr100bn," Mr Klakeig said. "These cash reserves will also help contribute to reducing the NKr51.3bn financing requirement."

Current 12-month money market rates are around 11 per cent.

Half-point base rate cut encourages firmer tone

By Tracy Corrigan in London and Patrick Harverson in New York

A HALF – POINT cut in the UK base rate created a firm tone in the gilts market, as traders interpreted the move as a sign that the UK government is moving slowly, because of sterling's fragility, but surely towards further reductions.

Some traders are even hoping for a further cut after Friday's retail prices index, the key inflation indicator, is released. So there was little sense of disappointment that the cut was only half a point rather than a point.

The move caught traders a little off-guard as expectations of a cut were beginning to fade after disappointing producer prices data earlier in the week. However, many dealers had already decided that those statistics were something of an aberration.

Gilt prices ended off their highs after profit-taking. The short end of the market performed particularly well.

The gilt futures contract on the London International Financial Futures Exchange ended at 93[illegible], up from 92[illegible] but off its earlier high of 93[illegible].

Sterling held up relatively well, staying close to the DM2.90 level. However, the government appears to be "walking a tightrope" between domestic economic considerations and exchange rate concerns, according to Mr Neil MacKinnon, chief economist at Yamaichi International. For the moment, the need to counteract the UK's economic recession appears to be taking precedence, but sterling remains vulnerable.

■ JAPANESE government bond levels ended little changed as rumours that the Bank of Japan was about to cut the discount rate proved unfounded. Some analysts take the view that an interest rate cut is unlikely before the spring round of wage talks, given concern that the rate of inflation should not be accelerated.

The bounce in stock market prices is prompting some profit-taking in the bond market and switching into equities.

■ THE GERMAN bond market ended slightly higher, recovering from Tuesday's weakness, but the market remains bound to a tight trading range.

● The Staatsbank's latest issue of floating rate notes, launched yesterday, was increased to DM4.5bn, reflecting firm international as well as domestic demand, according to lead manager WestLB. The deal was in two tranches of DM2.25bn each of four and five-year bonds, both paying interest at the six-month Frankfurt interbank offered rate. Both tranches were quoted a couple of basis points inside full fees of 20 basis points.

■ US government bonds traded quietly in a narrow range after conflicting evidence of the state of the US economy.

At midday, the benchmark 30-year bond was up ⅛ at 99⅜, to yield 7.946 per cent. There was no movement at the short end, with the two-year note unchanged at 100⅛, yielding 6.739 per cent.

The retail sales figures released yesterday showed a decline of 0.9 per cent in January, broadly in line with market expectations. However, the commerce department said it had revised the figure for December 1990 retail sales sharply downward, from the original estimate of a 0.4 per cent fall, to a far larger decline of 1.5 per cent.

Fed funds eased slightly to 6⅛ per cent after the Fed concluded a series of customer repurchase agreements worth $1.5bn.

GOVERNMENT BONDS

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	09/92	103-28	+6/32	10.88	11.16	11.50
		9.000	03/00	94-16	+13/32	9.94	10.07	10.58
		9.000	10/08	94-09	+19/32	9.72	9.89	10.22
US TREASURY *		7.750	11/00	99-28	+04/32	7.77	7.87	8.24
		7.875	02/21	99-05	+05/32	7.95	8.05	8.42
JAPAN	No 119	4.800	6/99	89.8861	-0.022	6.66	6.61	6.94
	No 129	6.400	03/00	100.3173	+0.173	6.34	6.45	6.64
GERMANY *		9.000	01/01	103.7500	+0.240	8.42	8.48	8.98
FRANCE	BTAN	9.000	02/96	98.4847	+0.304	9.40	9.66	10.23
	OAT	9.500	01/01	102.7500	+0.140	9.13	9.32	9.69
CANADA *		10.500	03/01	105.0000	-0.650	9.58	9.75	10.31
NETHERLANDS		9.250	11/00	103.4600	+0.070	8.70	8.77	9.28
AUSTRALIA		13.000	07/00	108.4675	-0.545	11.50	11.45	12.28
BELGIUM		10.000	06/00	104.1500	-0.200	9.31	9.15	9.77

London closing, *denotes New York morning session. Yields: Local market standard. Prices: US, UK in 32nds, others in decimal

Technical Data/ATLAS Price Sources

Malaysian bank expands into NZ via Bancorp stake

PUBLIC BANK, a medium-sized Malaysian bank with assets of M$10bn (US$3.7bn), has bought a 40 per cent stake in Bancorp, the New Zealand merchant and investment banking group, writes Lim Siong Hoon in Kuala Lumpur.

The NZ$4.2m (US$2.5m) deal, which priced Bancorp shares at 26 NZ cents each, represents part of Public's diversification from domestic retail operations to expand abroad faster than other domestic banks.

Public has established an offshore bank and a trust company and raised the status of its Hong Kong office to that of a restricted licence bank, allowing it to provide credit and other trade financing activities. It also owns JGC Finance, a Hong Kong finance company.

Bancorp is expected to contribute to Public's offshore arm through fund management and treasury services, says Mr Teh Hong Piow, president and chief executive.

Public is about a third of the size of Malaysia's largest bank, but one of the most profitable and fastest growing. Between 1986 and 1990, Public's pre-tax profit jumped to M$90m from M$15m, and its equity to M$750m from M$300m.

South Wales Electricity top rated

By Juliet Sychrava

SOUTH Wales Electricity has been assigned a top quality A-1+ credit rating for its planned £75m commercial paper programme.

Standard & Poor's, the US credit rating agency, assigned the short-term rating on a provisional basis and will give a final rating after reviewing programme documentation.

The credit agency, which indicated earlier this month that the regional companies were likely to receive high ratings, said that South Wales Electricity had a strong balance sheet, secure cash flows and minimal business risk. The regulatory environment in the new electricity industry was favourable, S&P believed.

It noted that South Wales Electricity had taken the decision to emphasise the core distribution business, rather than the higher-risk supply business.

However, East Midlands Electricity, which is committed to the supply business, was also assigned an A-1+ rating by S&P earlier this month.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 8:10 pm on February 13

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	101¼	102¼		7.92
ALBERTA PROVINCE 9 3/8 95	600	104⅝	105	+⅛	8.13
AUSTRIA 8 1/2 00	400	100¼	100⅝	-⅛	8.46
BANK OF TOKYO 8 3/8 96	100	98¾	99¼	-⅛	8.65
BELGIUM 9 1/8 92	400	101¾	102¼	-⅛	7.77
BFCE 7 3/4 97	150	97¾	98¼	+⅛	8.23
BNP 8 5/8 94	300	102	102½		7.92
BP CAPITAL 9 5/8 93	150	103¼	104¼		7.80
CANADA 9 96	1000	104⅛	104⅝	-⅛	7.91
CARCO 9 1/4 96	650	98⅞	99¼	+⅛	9.53
CCCE 9 1/4 95	300	104¼	104⅝	-⅛	7.98
COUNCIL EUROPE 8 96	100	99⅛	99⅝	-⅛	8.16
CREDIT FONCIER 9 1/2 99	300	105⅞	106¼		8.46
DENMARK 0 98	250	53⅞	54¼	-½	8.62
DENMARK 8 1/4 94	150	101¼	101½	+⅛	7.84
ECSC 8 1/4 96	193	100⅛	101		8.13
EEC 7 1/4 93	250	99¾	100¼		7.38
EIB 7 3/4 96	250	98¾	99¼		8.03
EIB 9 1/4 97	600	104¾	105		8.29
ELEC DE FRANCE 9 98	200	103¼	103⅝		8.37
EUROFIMA 9 1/4 96	100	104	104½	+⅛	8.25
EXPORT DEV CORP 9 1/2 98	150	105⅛	105⅝	-⅛	8.45
FINLAND 7 7/8 97	200	97½	98¼	+⅛	8.42
FINNISH EXPORT 9 3/8 95	200	104½	105	+⅛	8.16
FORD MOTOR CREDIT 9 1/2 93	300	101¼	101¾	+⅛	8.87
GEN ELEC CAPITAL 9 3/8 96	300	104½	105	+⅛	8.25
GMAC 9 1/8 96	200	99⅞	100¼	-⅛	9.15
HALIFAX 9 1/2 93	200	102⅞	103¼	-⅛	8.07
IBM WORLD TRADE 7 5/8 93	150	97¼	97⅝	-1⅛	8.76
IND BK JAPAN FIN 7 7/8 97	200	96½	97¼		8.56
INTER AMER DEV 7 5/8 96	200	97⅞	97¾	-⅛	8.21
ITALY 8 1/2 94	1500	102	102¼		7.84
JAPAN DEV BK 8 94	150	100¼	101¼	-⅛	7.71
KANSAI ELEC PWR 10 96	350	105½	106	-⅛	8.68
LTCB 8 5/8 93	150	101	101½	-⅛	8.07
NEW ZEALAND 8 93	100	100⅛	100⅝		7.91
NIPPON CRED BK 9 3/4 93	150	103⅛	103⅝	-⅛	8.35
NIPPON TEL & TEL 9 3/8 95	200	104¼	104⅝	+⅛	8.10
NORDIC INV BANK 9 93	200	102⅞	103¼	+⅛	7.60
ONTARIO HYDRO 11 5/8 94	200	109	110¼	+⅛	8.11
OSTER KONTROLLBANK 8 1/8 93	200	101¼	101⅝		7.45
PETRO-CANADA 7 1/4 96	200	96	96½	+⅛	8.20
PRUDENTIAL RLTY SECS 0 99	365.216	50	50½	+⅛	9.14
QUEBEC HYDRO 9 3/4 98	150	104½	105	-⅛	8.89
QUEBEC PROV 9 98	200	101⅝	102¼	-⅛	8.68
SAINSBURY 9 1/8 96	150	102¾	103¼	-⅛	8.47
SAS 10 99	200	99¾	101	-⅛	10.04
SBAB 9 1/2 95	500	104½	105	-⅛	8.16
STATE BK STH AUST 9 1/4 93	100	102	102¼	-⅛	8.12
SUMITOMO BK CAP MKT 9 3/8 93	150	102⅝	103⅛	-⅛	8.25
SWEDEN 8 1/8 94	150	100⅞	101¼	+⅛	7.93
SWEDISH EXPORT 9 5/8 93	150	103¼	104¼	-⅛	7.56
TOKYO METROPOLIS 8 1/4 96	200	100	100½	-⅛	8.24
WORLD BANK 8 3/8 99	1500	100¼	101	-⅛	8.42
WORLD BANK 8 3/4 97	1500	103⅛	103⅝	-⅛	8.19
XEROX CORPN 8 3/8 96	100	97¼	98¼	+⅜	8.88

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ASIAN DEV BANK 8 94	200	97	97		8.99
AUSTRIA 6 98	400	84½	84¾	-1	9.04
CNT 6 1/8 98	200	84¼	84½	-⅛	9.05
CREDIT FONCIER 6 3/4 99	500	87¼	87¼		9.05
DEUTSCHE BK FIN 5 5/8 96	750	88¼	88¾	+⅛	8.46
EEC 5 3/8 93	300	94¾	94¾	+⅛	8.79
EIB 6 96	300	87¾	88	+⅛	9.08
EIB 6 7/8 95	300	93⅛	93⅝	+1⅛	8.62
EUROFIMA 6 1/4 98	400	84⅛	84⅜		9.15
FELDMUEHLE FINANCE 8 99	200	94	94	+⅛	9.00
FERRO DEL STAT 5 3/8 93	500	94¼	94¾		8.74
IND BK JAPAN FIN 5 5/8 96	200	85⅞	86¼	-⅛	9.18
INTER AMER DEV 7 1/4 99	300	91⅛	91⅝	+⅛	8.69
LUFTHANSA INT FIN 5 7/8 98	500	84	84		8.98
QUEBEC HYDRO 6 3/4 99	300	86⅜	86¾	-⅛	9.15
SWEDEN 6 1/8 98	300	87½	87⅞	+1⅛	8.54
WORLD BANK 0 15	2000	17¼	17¾	+⅛	7.33
WORLD BANK 5 3/4 96	300	86⅞	86¾	-⅛	9.15
WORLD BANK 7 1/8 95	500	94¼	94½		8.92

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ASIAN DEV BANK 6 10	100	88½			7.10
AUSTRIA 4 5/8 98	100	89	91	-⅛	6.64
CHUJITSUYA 7 3/4 95	50	102¼		-⅛	7.14
COUNCIL EUROPE 4 3/4 98	250	88¼		+⅛	6.82
EEC 5 1/2 00	100	90	91½		6.94
EIB 5 3/4 93	100	98½	99	-⅛	6.36
ELEC DE FRANCE 7 1/4 06	100	103	103¾	-⅛	6.92
FINLAND 5 3/8 95	150	94⅞	96	-⅛	6.77
GENERAL MOTORS 7 1/2 95	100	102	102½	+1	6.92
JAPAN DEV BK 5 1/2 94	100	96½	96¾		6.83
NEW ZEALAND 4 7/8 99	200	89	89½		6.70
QUEBEC HYDRO 5 08	100	80	80½		7.05
SKANDINAVISKA ENSK 6 1/2 95	100	98	99	-⅛	7.10
WORLD BANK 5 03	150	85½	86½	+⅛	6.75
WORLD BANK 7 1/4 92	100	100	101		7.20

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
AUSTRIA 4 3/4 94	30000	94½	94¾	+⅛	6.88
CANADA 4 3/8 92	80000	96⅞	96⅞	+⅛	7.02
CREDIT FONCIER 5 1/4 94	20000	94½	94¾	+⅛	6.99
DENMARK 7 95	20000	100¼	101	+⅛	6.78
EIB 4 5/8 96	40000	93½	93¾	+⅛	6.93
GENERAL ELECTRIC 5 3/4 93	35000	96¾	97¼	+⅛	7.44
INTER AMER DEV 7 1/4 00	30000	103⅛	104	+⅛	6.69
ITALY 5 3/4 92	150000	98¾	99	+⅛	7.07
KANSAI ELEC PWR 4 5/8 94	60000	93⅛	93⅜	+⅛	6.99
NIPPON TEL & TEL 5 7/8 96	50000	96⅞	96¾	+⅛	6.66
NORWAY 5 1/8 95	50000	94½	94¾	+⅛	6.79
SWEDEN 5 5/8 95	20000	95¼	95¾	+⅛	6.85
WORLD BANK 6 3/4 00	50000	100¼	101¼	+⅛	6.63

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
COUNCIL EUROPE 7 94 LFr	600	93	94		9.79
KREDIETCORP 7 93 LFr	1000	93¾	94¾	+⅛	9.86
WORLD BANK 8 96 LFr	1000	94½	95½		9.37
AMRO BANK 6 1/4 92 Fl	150	94¾	95⅝		10.03
RABOBANK 5 3/4 93 Fl	150	92⅛	93½		10.84
ALBERTA PROVINCE 10 92 C$	500	100¼	100½		9.71
BCE INC 9 5/8 93 C$	300	98¾	99⅜	+⅛	10.18
BELL CANADA 10 5/8 99 C$	150	101¼	101⅞	-⅛	10.37
BRITISH COLUMBIA 9 1/4 93 C$	150	98⅝	99⅛	-⅛	10.01
EIB 10 1/8 98 C$	130	101½	102	+⅛	9.81
FORD CREDIT CANADA 10 94 C$	100	98⅞	98⅞	+⅛	10.54
GENERAL ELECT CAP 10 1/4 93 C$	175	101	101½	+⅛	9.75
MONTREAL TRUSTCO 8 1/2 92 C$	100	97⅛	98⅛	+⅛	10.70
ONTARIO HYDRO 10 7/8 99 C$	500	103⅛	103⅝		10.26
QUEBEC PROV 10 1/2 98 C$	200	100⅞	100⅞	+⅛	10.41
ROYAL TRUSTCO 10 1/4 93 C$	100	98⅞	99⅜	+⅛	10.77
SWEDEN 9 3/4 93 C$	250	99⅞	100⅜	+⅛	9.77
AUSTRIA 7 3/8 93 Ecu	125	94⅛	95¼	-⅛	10.50
CNT 7 3/8 93 Ecu	250	93¼	94⅜	-⅛	10.70
CREDIT LYONNAIS 9 96 Ecu	125	94	95½	-⅛	10.55
DENMARK 7 5/8 96 Ecu	250	89⅝	90¼	-⅛	10.25
EEC 7 5/8 94 Ecu	200	95⅛	96⅛	+⅛	9.29
EIB 10 97 Ecu	1125	103⅛	103¾		9.19
ITALY 10 3/4 00 Ecu	1000	108½	108⅞		9.38
SWEDEN 7 1/2 93 Ecu	250	91⅞	93¼	-1⅛	11.22
BMW FINANCE 14 1/2 92 A$	100	101¼	102⅛	-⅛	12.58
COUNCIL EUROPE 13 95 A$	50	100¼	101¼	-⅛	12.83
EKSPORTFINANS 12 3/8 95 A$	75	102¼	102¾	-⅛	11.64
FORD CRED AUST 13 93 A$	50	99¾	100⅛	-⅛	13.36
ICI 15 1/2 92 A$	100	103	103¾	-⅛	12.68
MCDONALDS CANADA 15 95 A$	100	106⅛	107¼	-⅛	12.82
NAT AUSTRALIA BANK 14 3/4 94 A$	150	105⅛	105⅝	-⅛	12.60
STATE BK NSW 14 1/4 99 A$	100	107⅛	107½	-⅛	12.80
VOLKSWAGEN INTL 15 94 A$	100	105⅛	106⅛	-⅛	12.60
ABBEY NATL TREAS 13 3/8 95 £	100	105⅛	105⅞	+⅛	11.62
BARCLAYS JERSEY 9 1/2 93 £	250	95½	95⅞	+⅛	11.96
BRITISH GAS 12 3/4 95 £	150	104⅞	105⅛	+⅛	11.17
DEUTSCHE BK FIN 11 94 £	225	99⅞	99⅞		11.25
EIB 10 97 £	300	96½	96⅞	+⅛	10.82
FORD CREDIT FUNDING 9 5/8 93 £	50	94⅛	94⅞	+⅛	12.78
INTER AMER DEV 11 3/8 95 £	75	101⅛	101⅛	+⅛	10.92
ITALY 10 1/2 14 £	400	94⅛	95⅛	+⅛	11.15
LAND SECS 9 1/2 07 £	200	81⅞	82⅛	+⅛	12.09
LEEDS PERMANENT 9 1/4 93 £	50	94⅛	94⅞		12.15
NORWAY 10 1/2 94 £	200	98⅛	98⅞	+⅛	11.11
ROLLS-ROYCE 9 5/8 93 £	150	94⅛	95	+⅛	12.36
SAINSBURY 10 7/8 93 £	100	98⅜	98⅞	+⅛	11.89
SKANDINAVISKA ENSK 13 1/8 95 £	100	103⅛	104⅛	+⅛	11.69
WORLD BANK 11 1/4 95 £	100	100⅛	101	-⅛	11.02
ABBEY NATIONAL 0 96 NZ$	100	50⅛	51⅛		13.28
TELECOM NZ O/S FIN 13 1/8 93 NZ$	75	100⅛	101⅛		12.86
AIDC 7 7/8 93 FFr	600	95⅛	96⅛	+⅛	9.74
CREDIT LYONNAIS 10 95 FFr	2000	100⅛	100½	+⅛	9.90
EURATOM 7 5/8 98 FFr	500	90⅞	91⅛		9.43

FLOATING RATE NOTES	Issued	Bid	Offer	C.cpn
ABBEY NATIONAL 1/16 00 £	150	99.73	99.91	14.1250
ALBERTA PROVINCE 1/32 93	500	99.96	100.08	7.5938
ALLIANCE & LEICS 0.08 94 £	300	99.15	99.23	14.1625
BANCO ROMA 0.03 01	200	90.00	91.33	7.9063
BANCO SANTO SPIRITO 93	200	99.36	99.66	8.4375
BELGIUM 1/16 97 DM	500	99.97	100.08	8.8125
BFCE -0.02 96	350	99.99	100.09	7.7925
BNP 05	300	96.88	97.50	7.4375
BRITANNIA 1/10 96 £	150	98.83	98.93	14.1625
CCCE 06 ECU	200	99.97	100.07	12.0000
CITIZENS FED 0.15 96	100	99.33	99.55	8.2125
COMMERZBK O/S FIN 93	200	99.66	99.76	6.3625
DENMARK -1/8 96	1000	99.08	99.18	8.0000
ELEC DE FRANCE 1/8 99	400	100.10	100.38	8.3750
FERRO DEL STAT 94	200	100.44	100.59	8.2500
HALIFAX 1/10 94 £	200	99.44	99.53	13.6000
HILL SAMUEL 1/4 PERP	75	82.25	85.25	8.5000
MITSUI FIN ASIA 1/8 96	100	98.87	99.07	8.1875
MORGAN (JP) 1/4 97	250	97.81	98.81	8.4375
NAT WEST FIN 3/16 05	400	90.08	91.08	8.3125
NEW ZEALAND 93	500	99.66	99.80	8.0625
QUEBEC PROV 01	300	96.92	97.12	8.1250
RENFE 98	500	99.93	100.09	7.8750
SOCIETE GENERALE 96	300	99.09	99.19	8.0000
STATE BK VICTORIA 0.05 99	125	98.08	98.33	7.8625
UNITED KINGDOM -1/8 96	4000	100.05	100.08	7.9375

CONVERTIBLE BONDS	Issued	Cnv. price	Bid	Offer	Prem.
ARGYLL GROUP 4 1/2 02 £	60	2.95	111	112¼	+19.07
ASDA-MFI 4 3/4 02 £	100	1.64	110⅞	112	+45.47
BURTON GROUP 4 3/4 01 £	110	3.15	109⅛	110⅛	
EASTMAN KODAK 6 3/8 01	300	50.67	100⅞	101⅞	+11.42
GOLD KALGOORLIE 7 1/2 00	65	1.0554	57	58	+45.18
GOODYEAR TIRE 6 7/8 03	150	80¼	60	61⅛	
GRACE (WR) 6 1/4 02	150	42⅛	84¼	85¼	+28.25
GRAND MET 6 1/4 02 £	100	6.58	108⅛	109⅛	+1.10
HAWLEY 6 02 PREF	400	1.91	93⅛	95⅛	+44.38
HILLSDOWN 4 1/2 02 £	150	4.16	102⅛	103⅛	
INTL PAPER 5 3/4 02 £	200	68⅛	98⅛	99⅛	+10.58
LAND SECS 6 3/4 02 £	84	6.72	90⅛	91⅛	+9.47
MITSUBISHI BK 1 3/4 02	300	2727.1	106	108	-3.28
OGDEN 6 02	85	39.077	73⅛	75⅛	+28.30
PACIFIC DUNLOP 6 3/4 97	75	3.749	110	111	+0.67
TEXAS INSTRUMENTS 2 3/4 02	500	82⅛	82⅛	83⅛	+59.93
THORN EMI 5 3/4 04 £	103	7.45	107⅛	108⅛	+25.04

* No information available - previous day's price

‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day = Change on day.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread = Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn = The current coupon.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS

UK Ecu2bn issue prompts overwhelming interest

By Simon London

THE UK government's Ecu2bn bond issue overshadowed other events in the international bond market yesterday, with syndicate managers reporting overwhelming interest in the paper.

Morgan Stanley was the surprise choice to lead manage the deal, beating several houses more established in the Ecu sector.

While disappointed that their firms had not been chosen to lead the deal, many of the larger houses said they *could have sold the issue* several times over.

Demand for bonds was reported from established buyers of Ecu-denominated paper, ranging from European retail buyers to far eastern institutional accounts. UK institutions, formerly shy of Ecu paper, were among the accounts queueing to buy.

The deal will be priced today at an indicated yield spread of between one and four basis points under the 10 per cent French government Ecu-denominated bond maturing 2001, which was yesterday yielding 9.27 per cent. Given the strength of demand seen yesterday, a spread of 4 basis points is likely when the bonds are priced today.

Participants in the deal will receive their formal allocations of bonds today. The 12 co-lead managers were yesterday restricted to selling allocations of *Ecu150m. Some syndicate managers were concerned the* lead manager would take an unfair amount of paper for itself. However, a spokesman for Morgan Stanley said that the bank "would bend over backwards to ensure a *fair distribution* in such a high-profile transaction."

The UK *government* issue aside, activity was centered on the Ecu sector of the market.

Société Nationale des Chemins de Fers (SNCF), the French state railway company,

INTERNATIONAL BONDS

continued to maintain a high profile with an Ecu300m 10-year deal lead managed by Paribas Capital Markets.

The paper carries a 9⅜ per cent coupon and was priced at a *fixed reoffer* price of 99.85. The deal was well received but *fell on announcement of the* UK government bond to trade *at the fixed reoffer price.*

Earlier this year, SNCF lost the French government's explicit guarantee of new issues but has since been rated Triple-A by Moody's Investors Service.

The shorter, three-year maturity saw a flurry of deals, led by Swedish Export Credit (SEK), which came with a Ecu250m offering, lead managed by Credit Suisse First Boston.

The paper carries a 9¼ per cent coupon and was priced at a fixed reoffer of par.

SEK had its credit rating cut from Triple-A to AA-1 by Moody's Investors Service last month, in line with the downgrading of the Swedish governments.

Finnish Export Credit, which maintains a Triple-A credit rating, later offered Ecu150m three-year paper via Nomura International. The coupon is 9¼ per cent and the reoffer price is par.

Also at the three year maturity, IBM International *Finance offered* Ecu150m bonds via Paribas. The coupon is 9¼ *per cent and the paper* was priced at a fixed reoffer of 100.1125.

Supply in the dollar sector continued, with the Export-Import Bank of Japan offering $250m of 10-year paper, lead managed by Nomura International. The paper carries a coupon of *8⅞ per cent and was* priced to yield 50 basis points *over the equivalent US treasury* stock.

MTKB Finance, *a special* purpose financing subsidiary for Mitsui Taiyo Kobe Bank has issued $800m of 10-year subordinated debt. The deal was lead managed by MTK International and carries a coupon of 8.625 per cent. Despite the size of the issue, most of the paper is likely to be bought by long-term holders in Japan *and is unlikely to trade widely.*

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
MTKB Fin.Cayman Ltd(b)♦	800	8⅝	101.70	2001	2/1¼	Mitsui Taiyo Kobe Int.
Exp.Imp.Bk Japan(a)♦	250	8⅞	99.52	2001	32½/20bp	Nomura Int.
Thermo Electron Corp(c)§♦	74.75	6¾	100	2001	2½/1½	Lehman Bros.Int.
ECUs						
SNCF(a)♦	300	9⅜	101.525	2001	2/1.85	Paribas Capital Mkts.
Swedish Export Credit(a)♦	250	9¼	101.1875	1994	1⅜/1.275	CSFB
Finnish Export Credit(a)♦	150	9¼	101 3/16	1994	1⅜/1.275	Nomura Int.
IBM Int.Fin.NV(a)♦	150	9¼	101.30	1994	1⅜/1.2875	Paribas Capital Mkts.
Central International(d)§♦	70	10¼	100	1996	2½/1½	*Merrill Lynch Int.*
FRENCH FRANCS						
C.Nat.de Cr.Agricole(e)	1bn	9¾	(e)	1996	25/15bp	*Credit Agricole*
D-MARKS						
World Bank(f)♦	200	8½	100	2001	1⅞/1⅛	*Commerzbank*
Autobacs Seven Co.(a)♦	50	4⅞	100	1995	2¼/1½	Daiwa Europe GmbH
SWISS FRANCS						
Province of Quebec(a)♦	200	6¾	101½	2001	-	UBS
Republic of Austria(g)♦	150	6⅝	101¼	2001	-	UBS
Republic of Austria(h)♦	150	6¾	102	2008	-	UBS
Bque.Nat.de Paris(a)★★♦	100	7¼	102	1994	1¼	SG Warburg Soditic SA
Nordic Investment Bk(a)★★♦	50	7⅛	101¾	1994	1¼	SG Warburg Soditic SA

★★Private placement. §Convertible. ♦With equity warrants. †Floating rate note. ♦Final terms. a) Non-callable. b) Subordinated issue. Callable after 5 years at par. c) Amount increased from $65mn. Callable at 103% from 1994 declining by 1% per annum to par. d) Amount increased from Ecu50mn. Conversion premium fixed at 5%. e) Fixed price reoffer - 99.70%. Non-callable. f) Callable at par on 12/3/93, 1994 and 1995. g) Callable after 8 years at 101% declining ½% annually. thereafter. h) Callable after 9 years at 101% declining ¼% annually, thereafter.

World Bank names co-lead managers

THE World Bank has assigned Merrill Lynch and JP Morgan to act as co-lead managers of its fourth global bond issue, writes Tracy Corrigan. They *have not previously run the* books on a World Bank global offering. The deal could emerge as soon as next week.

The issue will total $1bn to $1.5bn and will be distributed simultaneously in the Eurobond market and the US and Japanese markets. Dealers *suggest that the World Bank* is likely to take advantage of strong demand for longer-dated dollar securities by issuing 10-year bonds. It's outstanding 10-year global bonds are currently quoted at a yield spread of 43 basis points above the comparable US treasury.

The World Bank has cut the underwriting group from a *total of 15 to 10* in order to achieve tighter control of distribution, an official said. Among those cut, by geographic region according to the bank, was Morgan Stanley, which acted as joint lead manager of the Bank's second global offering.

● The World Bank yesterday launched a DM200m issue *of 8½ per cent 10-year Euro*bonds, accompanied by DM2m of warrants priced at DM3.70 per warrant which entitle the holder to buy a second series of bonds which are yet to be issued. Commerzbank arranged the deal.

SEC in ruling on assets

THE US Securities and Exchange Commission (SEC) yesterday shrugged off the objections of broking houses and corporate paper issues and voted to limit the amount of assets US money-market funds can invest in low-rated commercial paper, writes Patrick Harverson.

The new rules prohibit funds from investing more than 5 per cent of their assets in commercial paper rated below the top grade. They also limit the amount funds can invest in the paper of any one issuer to 1 per cent of assets.

Brokers who sell commercial debt and the companies which issue the paper opposed the new rules on the grounds that they would raise the cost of financing for corporate issuers.

Finns to clear path for foreigners

Enrique Tessieri looks at plans to reform laws on overseas investment

ALMOST a year has passed since the Helsinki government appointed a committee to draft legislation which aims at facilitating foreign investment in Finland.

Observers are keenly awaiting the recommendations of the government committee, which will be published at the end of June. Optimists claim the new law will put an end to the protected days of Finnish industry.

The need for more liberal foreign investment laws has been heralded by the rapid internationalisation of Finnish companies during the 1980s and their need for larger amounts of capital. Some Finnish executives are not afraid to point out that foreign equity restrictions have made Finnish companies more indebted than their rivals in western Europe.

Even if some high-ranking industrialists may publicly speak out in favour of the virtues of greater foreign investment and competition, many are also anxious about the future prospects of losing market share as well as being unable to hide any more behind strict foreign investment laws.

Kirsti Rissanen, a professor in commercial law who heads the 14-member government foreign investment committee, believes it is in the best interests of Finland to open up. She does not, however, rule out the possibility that the new law may keep foreign investment in check and thus do the dirty work for the companies.

The new law on foreign investment will replace the Restricting and Insurance Companies Act, which generated a lot of controversy in 1988 when the government changed the limits on foreign equity ownership of Finnish insurance companies from 100 per cent to 40 per cent.

Apart from the fact that living next to a giant neighbour, the Soviet Union, has helped to fuel a strong sense of nationalism among the Finns, Prof Rissanen explains that the country's strict foreign investment laws stem from the trade wars of the 1930s. The Restricting Act of 1939, which still continues to regulate foreign investment, was a draconian answer to this outside threat.

The antiquated act limits foreigners from owning more than 20 per cent of the equity of a Finnish company and under special permission up to 40 per cent. It also prohibits non-Finns from establishing enterprises in key areas of industry such as forestry, mining, real estate, refining and securities trading.

Prof Rissanen says that Finland is closely following developments in Sweden, which is also drafting new foreign investment legislation.

One of the big issues which the committee is debating at is whether Finland should allow foreigners to own more than 50 per cent of the equity of a Finnish company.

According to Prof Rissanen, the sensitive issue of land ownership will not be included in the new investment law, but in separate legislation which is presently being drawn up by another government committee.

Prof Rissanen believes the new law on foreign investment will give the government the power to block individual acquisitions of Finnish companies by foreigners. The committee will also decide whether to put an end to the distinction between "restricted" and "free" shares.

As in Sweden, Finnish companies have also been able to protect themselves from virtually all kinds of hostile takeovers with the help of illiquidity and by retaining high-voting restricted shares in friendly hands.

Finnish companies have been able to protect themselves from hostile takeovers with the help of illiquidity and by retaining high-voting restricted shares in friendly hands

Even if the present coalition government – comprising the Social Democrats, Conservatives and Swedish People's Party – has taken some steps to improve the climate for foreign investment, the process of opening up Finland's small markets to outsiders has been slow and even restrictive as the Insurance Companies Act proved.

There are presently about 2,000 foreign companies in Finland. The largest of these is ABB Strömberg a Swedish-Swiss metals engineering group with turnover reaching some FM4bn.

Apart from Finland's small 20,000-strong foreign community, foreign investment to Finland has been equally small but steadily increasing: from FM1.35bn in 1989 to FM3.64bn last year against FM11.79bn and FM15.04bn invested abroad by Finnish companies.

Even if Mr Ilkka Suominen, the Conservative minister of trade and industry, has said publicly he has no objections to allowing foreigners to have a free hand in acquiring forest companies, the backbone of the country's economy, some observers are not as optimistic.

Prof Rissanen could not say if her committee would recommend land and foreign ownership of forestry companies to be considered areas of national security.

"There is nothing definite yet. But the key issue is to what extent can we take national interests into account when considering a certain company. We hope to define this question of national interests and make it more tangible," said Prof Rissanen.

Depending on what priority the new government will give to foreign investment after next month's parliamentary elections, Prof Rissanen does not rule out the possibility that the new law could, after obtaining a simple majority in parliament, be in force at the beginning of 1992.

Dispute between clearing systems to resurface

By Tracy Corrigan

THE DISPUTE over settlement procedures between the two European clearing systems, Euroclear and Cedel, is likely to resurface publicly at the annual meeting of the Association of International Bond Dealers in Hong Kong in May.

On May 22 last year, Euroclear and Cedel agreed to renegotiate their 10-year-old bridge agreement, widening the issue at stake from an original contention about primary market settlement. The bridge between the clearers is the mechanism by which settlement information is exchanged and is generally agreed to have become outdated.

Despite nine months of negotiations, a new agreement on the electronic bridge has yet to be reached. However, relations between the two parties are said to have improved from their previously low ebb following a series of meetings. The two parties signed a memorandum of understanding last September, outlining a basis for future agreement, while both sides examined technical practicalities. In October, Cedel put forward a conceptual proposal incorporating the need for multiple exchange of files.

On December 13, Euroclear put detailed proposals to Cedel which included a commitment to incorporate multiple exchange of files, seen as a concession by Euroclear. However, Euroclear's proposal "only achieves 40 per cent of the memorandum of understanding," according to Mr André Lussi, Cedel's chief executive.

Cedel then put forward a counter-proposal on January 31. But Euroclear considers Cedel's references to the concept of delivery versus payment an unnecessary obstacle.

So, although progress has been made, an agreement is still not in sight.

Mr John Dowsett, deputy chairman of the AIBD's market practices committee, now acknowledges that Euroclear has "made a lot of concessions" to Cedel's position. The committee, which has been closely involved in discussions, will meet again before the AIBD's annual meeting in May.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1991 to date	Year ago (approx) Index No.
1 CAPITAL GOODS (187)	770.35	+1.3	13.88	5.23	8.77	0.67	873.51
2 Building Materials (25)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1065.71
3 Contracting, Construction (31)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1481.43
4 Electricals (10)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2489.78
5 Electronics (25)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1915.93
6 Engineering-Aerospace (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	432.42
7 Engineering-General (47)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	468.48
8 Metals and Metal Forming (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	477.85
9 Motors (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	366.25
10 Other Industrial Materials (20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1567.24
21 CONSUMER GROUP (182)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1251.59
22 Brewers and Distillers (22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1459.39
25 Food Manufacturing (20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1089.54
26 Food Retailing (16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2281.27
27 Health and Household (21)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2431.86
29 Hotels and Leisure (22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1577.96
30 Media (25)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.00
31 Packaging & Paper (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	573.60
34 Stores (34)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	783.71
35 Textiles (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 OTHER GROUPS (131)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Business Services (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Chemicals (21)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Conglomerates (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Transport (15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Electricity (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
46 Telephone Networks (3)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Water (10)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Miscellaneous (27)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP (480)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas (20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 500 SHARE INDEX (500)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP (98)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life) (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite) (6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance (Brokers) (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property (42)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Other Financial (20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts (69)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 ALL-SHARE INDEX (667)	[illegible]	[illegible]	-	[illegible]	-	[illegible]	[illegible]
FT-SE 100 SHARE INDEX♦	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST

PRICE INDICES	Wed Feb 13	Day's change %	Tue Feb 12	Accrued interest	xd adj. 1991 to date
British Government					
1 Up to 5 years (28)	120.41	+0.36	120.41	1.51	1.65
2 5-15 years (31)	132.61	+0.60	131.82	1.89	1.94
3 Over 15 years (8)	141.95	+0.70	140.96	3.08	0.44
4 Irredeemables (6)	156.04	+0.55	155.18	3.01	0.00
5 All stocks (73)	131.24	+0.53	130.61	1.89	1.72
Index-Linked					
6 Up to 5 years (2)	159.05	+0.21	158.72	1.12	0.00
7 Over 5 years (10)	144.68	+0.59	143.83	0.54	0.70
8 All stocks (12)	145.64	+0.56	144.83	0.58	0.65
9 Debs & Loans (54)	107.28	+0.22	107.04	2.76	0.68

AVERAGE GROSS REDEMPTION YIELDS		Wed Feb 13	Tue Feb 12	Year ago (approx.)
British Government				
1 Low	5 years	9.40	9.46	10.70
2 Coupons	15 years	9.53	9.61	10.30
3 (0%-7¾%)	25 years	9.62	9.71	10.18
4 Medium	5 years	10.13	10.28	11.78
5 Coupons	15 years	9.89	9.97	10.67
6 (8%-10¾%)	25 years	9.82	9.88	10.28
7 High	5 years	10.29	10.43	11.92
8 Coupons	15 years	10.04	10.12	10.87
9 (11%-)	25 years	9.91	9.97	10.41
10 Irredeemables		9.86	9.94	10.20
Index-Linked				
11 Inflation rate 5%	Up to 5yrs	3.74	3.84	4.48
12 Inflation rate 5%	Over 5 yrs	4.14	4.18	3.89
13 Inflation rate 10%	Up to 5 yrs	2.43	2.53	3.62
14 Inflation rate 10%	Over 5yrs	3.97	4.01	3.73
15 Debs &	5 years	12.47	12.41	13.47
16 Loans	15 years	12.13	12.12	12.77
17	25 years	11.81	11.84	12.71

♦Opening index 2255.5; 9 am 2263.3; 10 am 2262.4; 11 am 2271.3; Noon 2265.4; 1 pm 2269.5; 2 pm 2275.0; 2.30 pm 2275.0; 3 pm 2276.2; 3.30 pm 2277.8; 4.10 pm 2268.7. [illegible] FT-ACTUARIES SHARE INDICES SERVICE Includes details of the information used in the construction of these indices. These are available by subscription from FINSTAT, 071-925 2323.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	84	0	2
Corporations, Dominion and Foreign Bonds	7	0	14
Industrials	493	153	910
Financial and Properties	299	64	389
Oils	20	18	54
Plantations	1	1	8
Mines	29	14	122
Others	37	51	53
Totals	970	301	1,552

LONDON RECENT ISSUES

EQUITIES

Issue Price	Am'nt Paid up	Latest Renunc Date	1990/91 High	1990/91 Low	Stock	Closing Price	+ or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
$100	F P	-	95	58	‡Eidos 10p	58		-	-	-	-
-	F P	-	3825	3525	Eurotunnel Fnder. Wrnts	3550	-50	-	-	-	-
-	F P	-	100	90	JF Pacific (New Wrnts)	100		-	-	-	-
50	F.P	-	45	43	Trio Inv. Tst.	44		-	-	-	-
-	F P	-	9	6	Do Warrants	7		-	-	-	-

FIXED INTEREST STOCKS

RIGHTS OFFERS

TRADITIONAL OPTIONS

- ● First Dealings Feb. 4
- ● Last Dealings Feb. 15
- ● Last Declarations May 16
- ● For settlement May 28

For rate indications see end of London Share Service

Calls in Brent Walker, Budgens, Cannon Street Invs., Cooksons, Dares Ests., FKI, Hanson warrants, Kelt Energy, Walter Lawrence, Lonrho, Lucas Inds., Oliver Res., St. Modwen Props., Stakis and Unitech. Puts in T. Cowie, Marley, NatWest Bank, Plaxtons and Ratners. Put and call in Brent Walker, Ford Sellar Morris Props. and Tusker Res.

LONDON TRADED OPTIONS

THE SURPRISE cut in UK interest rates pushed stock index futures higher yesterday as institutions *used the derivative markets* to increase their exposure to equities. The traded options market was boosted by buying of FT-SE index call as an alternative to equity futures.

The reduction in base rates appeared to cause a change in investment intentions from the larger players, some of whom had started to sell the futures market. But the prospect of further *cuts in rates triggered good* buying of shares.

However, with the market short of stock, institutions were unable to sufficiently add to their portfolios and were then forced into futures to gain quick exposure to *the UK market. Some of the* larger institutions were sellers of US futures and buyers of UK, French and German futures in major asset allocation trades.

The lack of stock was *reflected* in the strength of the futures over *the spot market.* With an insufficient quantity of shares on offer, arbitrageurs could not sell futures and buy stock. As a result, the futures' premium remained high throughout the session.

March FT-SE 100 closed at 2,302, up 2 points on the day. March's premium to the cash index finished little changed at 35 points. Brokers' calculate that March should trade only 9 points *above the spot index, which* reflects the cost of finance and future dividend payments. In the after-hours trading the index crept higher, with March finishing at 2,305.

In traded options, there was *active buying of March 2,300 calls* as an alternative to buying futures. Rolls-Royce March 180 call options were busy after a broker downgraded its profit forecast. *Hanson featured following* the release of its first-quarter *results, with the February 180* calls the most popular.

Option		Calls Apr	Calls Jul	Calls Oct	Puts Apr	Puts Jul	Puts Oct
Allied Lyons (*512)	460	66	72	85	5	12	14
	500	35	47	57	13	25	29
	550	12	22	35	44	54	57
ASDA (*127)	110	22	26	28	1½	3	5
	120	14	19	21	4	7	9
	130	7½	13	16	8	10	13

Option		Calls Apr	Calls Jul	Calls Oct	Puts Apr	Puts Jul	Puts Oct
Unilever (*711)	700	36	54	75	25	33	38
	750	14	-	-	55	-	-
Ultramar (*318)	300	27	41	45	11	14	16
	330	12	23	30	27	28	32

Option		Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
Barclays (*399)	390	18	32	40	21	27	32
	420	6	-	-	42	-	-
Blue Circle (*248)	240	17	23	30	9	18	27
	260	6	13	20	20	30	33
British Gas (*241)	240	10½	21	23	6	10	14
	260	3	9½	13	20	21	26
Dixons (*164)	160	12	20	23	6½	10	13
	180	3½	10	14	19	21	23

Six Polly Peck resignations are confirmed

By Richard Waters

THE RESIGNATIONS were confirmed yesterday of six directors of Polly Peck International, the fresh fruit and electronics group, and it emerged that more boardroom departures could follow.

Those to leave are executive directors Mr Mark Ellis, Mr David Fawcus and Mr Radar Reshad, and non-executive directors Mr Ulf Siebel, Mr Neil Mills and Mr Dick Halpin.

Mr Richard Stone, one of three administrators appointed to the group last October, said: "The services of those directors are no longer required. We have effectively devolved operating control to operating directors of the group."

Mr Fawcus and Mr Ellis have formally resigned only within the last week, while the others resigned on January 18. This was because the two executives were still needed to assist the administrators until last week, Mr Stone said.

He added that there were likely to be further board changes after the administrators had developed their restructuring plan for the group, due by March 31.

"I think we have slimmed the board down to a sensible level. As we go forward with the restructuring plan, it may be that we will recruit more directors, and that some of those already there will feel they would rather pursue other interests," said Mr Stone.

Still on the board are Mr Asil Nadir, chairman and chief executive; Mr Reg Mogg, finance director; Mr John Clayton, company secretary; and non-executives Mr Larry Tindale and Mr Michael Sandberg.

Mr Stone added that progress had been made in recent weeks in tracing Polly Peck money that is said to have been invested in property developments in northern Cyprus. This amounts to more than £160m.

"We have more information – but not in the detail we need to verify what the position is to our satisfaction," he said. He refused to give further details, or to say whether the administrators had discovered cash deposits in northern Cyprus or elsewhere.

The administrators will have to decide within the coming weeks whether they have enough information about Polly Peck's northern Cypriot operations to include them in their restructuring plans, or whether they will have to be left to one side to be dealt with later.

Receiver called in at Gaynor

By Clay Harris

GAYNOR GROUP, the Manchester-based plastic packaging company, was placed in receivership yesterday, five days after its shares were suspended on the USM.

The receiver, Mr Grahame Watts of Touche Ross, said he had been appointed at the request of National Westminster, Gaynor's bankers. Mr Watts said he would try to keep the business intact for sale as a going concern.

Gaynor, which makes plastic carrier bags and polythene film, reported a pre-tax loss of £1.54m on turnover of £6.41m in the year to August 31. It suffered when customers switched to thin, high-density polythene carrier bags, which it was not equipped to make. It has continued to lose money in the current year.

Gaynor's 1989-90 accounts were qualified and drawn up on the basis that banking facilities would remain available. Current liabilities exceeded current assets by £982,000 on August 31.

The collapse puts at risk more than £1m invested or lent by the Scowcroft family, which owns 54 per cent.

The Scowcrofts, who also own the Swinton insurance group, paid £3.35m, or 120p per share, for their controlling stake in July 1988. By last Thursday, the shares had plunged to 7½p, to value Gaynor at £394,000. Last summer, the family made available another £750,000 in capital.

Shake-up at Dixons' offshoot

By Clare Pearson

DIXONS, the electrical retailer, yesterday announced new appointments at Silo, its North American subsidiary, which are intended to tighten management controls within the superstore group where trading has deteriorated in the context of the US recession.

The company said Mr Robert Sirkis, who joined Silo only last November as head of marketing, was to take over the main executive role at the company as executive vice president.

Mr Tony Dignum, Dixon's group finance director, is to combine that role with becoming Silo's president. The company said he expected to spend about three quarters of his time in the US.

He takes over from Mr Barry Feinberg, who had been president since before Dixons acquired Silo four years ago. But he is to remain as a non-executive director.

Prior to joining Silo, Mr Sirkis spent nine years in the US fast food business.

The hope is that the management shake-up will lead to improvements in cost reductions and margin improvements at Silo's 233 stores. In the six months to November 10, they made an operating loss of £2.3m on sales of £245.3m after charging £1.7m for costs of adding more outlets in Los Angeles.

Dixons said yesterday there had been no improvement in trading during the second half since the interim results announcement in January.

The recession has begun to shake the resilient image of the support service sector, **writes David Owen**

Chickens come home to roost as the good times end

THE NOTION that business support services are "recession resistant" became an article of faith during the 1980s boom.

Employees make as much mess and visit the washroom as frequently in good times as in bad was the underlying logic. The effectiveness of office security should not fluctuate as profits rise and fall.

As recently as November 1989 Mr Nicholas Wills, BET's chief executive, was spreading the gospel, applying the fateful phrase to the former British Electric Traction turned services conglomerate. While the good times lasted, most City analysts joined the chorus.

With that period of rapid economic growth now over, the chickens are coming home to roost. The truth of the matter, it is increasingly recognised, is much more complex than such glib assumptions allowed.

"While it was felt that service companies would generate cash during a downturn, the severity of this recession has meant that this cash generation has not always been there," says Mr Mike Murphy, an analyst with Warburg Securities.

For one thing, some support services – in common with professional services like advertising – are more discretionary and hence more recession-prone than others. It comes as little surprise that UK profits at BET's background music business are running below year-ago levels. This is in spite of growth in non-traditional customer sectors like financial services.

Also vulnerable are services like recruitment and plant hire, which are provided regularly as opposed to continuously, and where demand is tied immediately and directly to the performance of the customer's business.

Profit from personnel services at Guildford-based Hays, slipped by 2 per cent in the year to June 30, in contrast to the increases achieved by both distribution and delivery services. This was in spite of the unit's heavy concentration on the provision of accountancy personnel – a specialisation which, the group contends, makes it more stable than non-specialist agencies or "arms and legs providers."

But at least Hays was able to restrict the damage done to its margins by scything costs in line with tumbling demand. The decline in its personnel profits would have been greater, the group said, "but for firm action, swiftly taken, to reduce staff numbers and cut advertising costs and other overheads."

Tailoring costs to demand tends to be much trickier in capital-intensive sectors like plant and construction services.

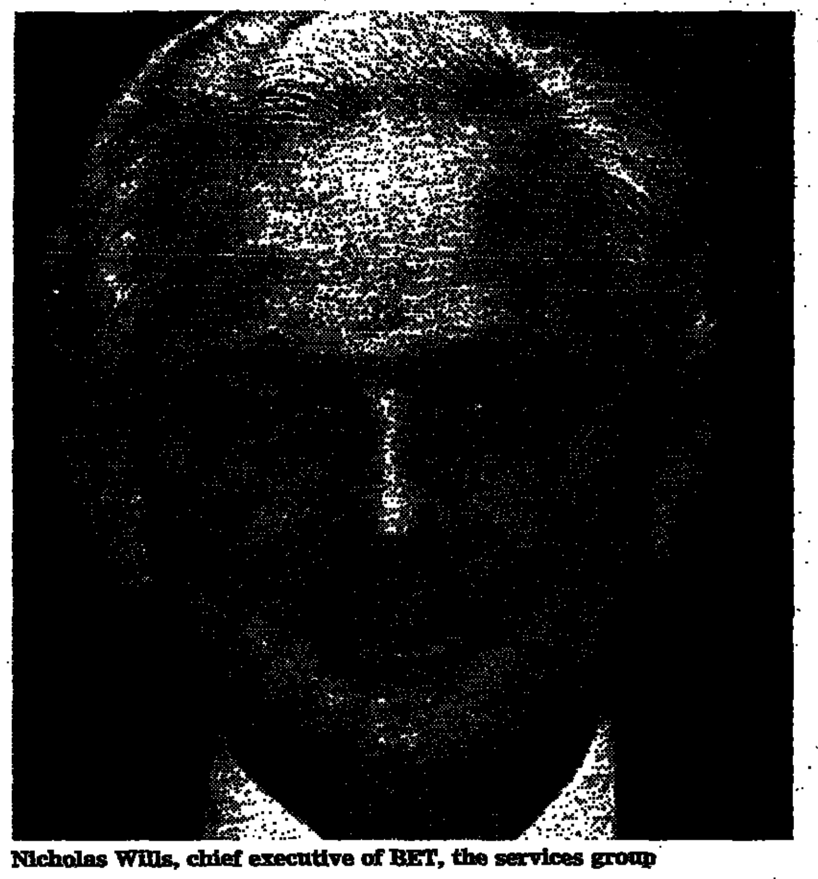
"It is quite easy to take out variable costs in labour-intensive service businesses, whereas with plant hire it is much more difficult," according to Mr Murphy.

Significantly, Salomon Brothers – in its analysis of BET's expected profit margins conducted last November prior to the recent round of profit downgrades – forecast a 0.6 percentage-point decline to 7.4 per cent in the year to March 1991. The most marked decline was forecast to occur in plant and construction services.

Even non-discretionary services like cleaning and workwear rental are liable sooner or later to be trimmed in response to a round of layoffs or a customer's cost-cutting drive.

There may admittedly be a lag before such cutbacks are passed on. But service providers generally pride themselves on the degree of flexibility with regard to changed requirements that their contracts permit. They would not long remain competitive if they didn't.

Some services are partly insulated from this sort of pruning. Security is unlikely to be affected unless a factory or office is closed. Canteen services where the provider is recompensed in the form of a management fee can be made to run more cheaply or efficiently without the fee itself being reduced.



Nicholas Wills, chief executive of BET, the services group

Long-term distribution contracts are often structured in such a way that the service provider's revenues fall less rapidly than volumes when times are tough. Many linen supply or washroom service agreements involve a fixed weekly charge, irrespective of volume, for the contract's duration.

It is hard though to escape the conclusion that support services are usually no more (or less) recession resistant in turnover terms than the businesses they serve.

Given identical balance sheets and management, the most resilient service company would be one with customers concentrated in, say, food retailing and pharmaceuticals.

Even so, several UK-quoted support service companies will perform comparatively well during this recession. But this will be due less to intrinsic resilience than the immaturity of the European market.

It has been estimated that the average UK manufacturer contracts out the equivalent of only 5 per cent of revenues. This compares with 8 per cent in the more mature US market and what BET terms "a reasonable expectation" of 20 per cent.

If anything, the recession should speed up the rate at which support service companies attract prospective new customers lured by the one-off cost savings that contracting out can initially generate.

Some report that this is already happening. "Our sales department is busier now than it has ever been," says Mr Garry Hawkes, managing director of Gardner Merchant, Trusthouse Forte's catering arm.

"In 'count the paperclips' eras like the present, people are seeking more cost effective answers to their feeding problems." Gardner Merchant puts contractor penetration of the potential UK staff feeding market at 38 per cent.

The established trend towards contracting out in the public sector is also working to the service companies' advantage. BET estimates the potential market in the UK alone to be "at least £20bn." To date, it says, central government has only contracted out 10 per cent of its services and local government a mere 1 per cent.

Meanwhile, the larger support service organisations expect to benefit from a tendency among companies who were in the vanguard of the original move towards contracting out to entrust their ancillary work to fewer and fewer service providers.

In two years, IBM UK has reduced from 830 to 45 its number of outstanding domestic support service contracts. "It may theoretically be possible to continue into single figures," according to Mr John Jack, the subsidiary's property director.

BET contracts confront the downturn

MOST ANALYSIS of BET's difficulties, underscored by the recent collapse in its share price, has focused understandably on the service group's stretched balance-sheet.

Even with last week's sale to Thorn EMI of the company's stake in Thames Television, gearing at the March 31 year-end is unlikely to be less than 90 per cent.

But an equally pressing issue is how BET's diverse businesses are faring as the economy deteriorates rapidly.

Essentially, the core business support service activities divide into three groupings: industrial and commercial, plant and construction, and distribution. In aggregate, these accounted for close to 90 per cent of the company's £2.69bn revenue in 1989-90.

The backbone of the industrial and commercial grouping is the quiver of textile rental, washroom and cleaning services. Trading under the rather unmemorable Initial, Allied Industrial and Laundrycraft brands, these contributed £786.7m of revenues.

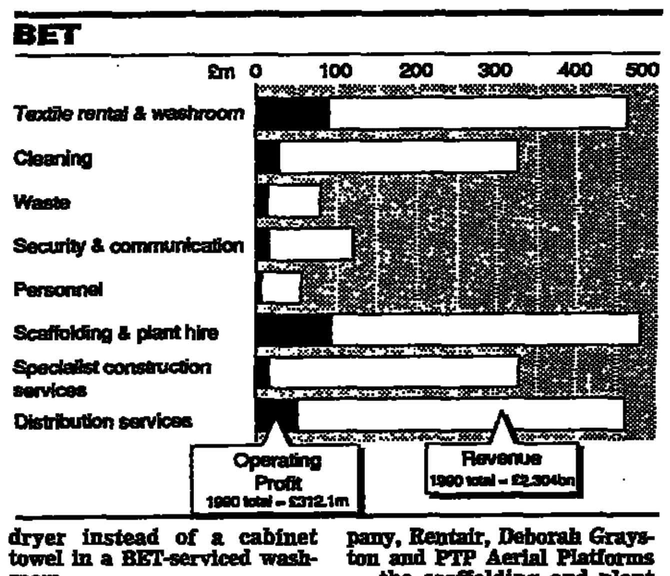
A further £252.8m was generated by other industrial and commercial services, namely electronic and manned security, recruitment and waste management. Here, the main brands are Shorrock, Hestair and Biffa. This trio's proportional contribution is expected to rise in 1990-91 due to Hestair's inclusion for a first full year and the comparative buoyancy of the security and waste management sectors.

According to Mr Nicholas Wills, chief executive, this part of BET has experienced a "gentle decline" in its fortunes, as opposed to the "gentle growth" that had been expected.

This has been due largely to the impact of the recession on many of the smaller customers. Mr Wills describes these as BET's bedrock. "The profit margins are probably higher on the 15-20 towels we handle for the guy on the high street than the quarter of a million for Ilea," he says.

The bulk of group business in these areas is on the basis of contracts of at least one year's duration. This tends to provide a modicum of insulation from the underlying ebbs and flows of the customer's own commercial activity.

This is particularly the case in linen servicing contracts, which are structured around a weekly fee irrespective of the number of items handled. The group also books business on a pay-as-used basis. In these cases BET's revenues are clearly more likely to track those of its client.



Some modification of contracts terms might be allowed, however. For example a customer suffering a slump might be permitted to downgrade, perhaps by installing a hot-air dryer instead of a cabinet towel in a BET-serviced washroom.

In cases where a client wanted to cancel altogether, a lump sum is charged designed to recover anticipated payments over the remaining life of a contract. If a customer goes bankrupt, however, the group is normally an unsecured creditor.

The contribution from plant and construction services to 1989-90 revenues was £805.2m. This came from an array of companies including Grayston White & Sparrow – the world's largest crane-hire company, Rentair, Deborah Grayston and PTP Aerial Platforms – the scaffolding and plant hire specialists, and HMS Industrial and Sparrow Industrial Services – the contract labour operations.

As a capital-intensive part of a depressed industry, construction services have been hit particularly hard in the current year. "Our level of tendering is high, but decisions on whether or not to proceed with large projects are being pushed back," says Mr Bill Boulton, BET Plant Services chairman.

"Tailoring your stock of capital equipment is difficult, you need a lead period," he adds. "Projecting ahead for next year, I would be looking to spend significantly less than our depreciation."

Some construction-related contract structures do provide BET with a degree of protection from the vicious cyclicality of the industry. A hefty chunk of business is the provision of continuous care and maintenance services at the likes of power, steel and petrochemicals installations.

"To some extent, when a plant's workload falls, the maintenance increases," Mr Boulton points out. Even here though, the recession is squeezing margins owing to low bids from work-starved non-specialists at tenders.

In addition, certain plant hire customers have effectively postponed the economic downturn's impact on BET by agreeing to rent machinery, regardless of workload, for a fixed period. "We just hired off 15 cranes for five years," Mr Boulton says. He admits, however, that such contracts are "exceptional."

Distribution, which mainly consists of United Transport, contributed £459.3m in 1989-90. Two years ago, the unit was split into three pan-European sections: tankers, logistics and containers.

BET projects that profit margins from distribution "will not be down significantly" on the basis of current trading, although the volume of goods carried has fallen. It says it has been helped by the resilience of the petrochemicals/chemicals sector which constitutes its largest customer group.

However, margin erosion has occurred in the 10-15 per cent of the division's business that is transacted on a spot basis. Rising fuel costs have been a leading culprit, according to Mr Tim Gold Blyth, United Transport chairman. "We don't set out for spot business, but it is used to fill empty containers on return journeys," he adds.

Long-term contracts are generally structured so that customers "share the hit" if volumes fall below anticipated levels. The intimacy of the relationship built up with such customers affords protection from unscheduled contract cancellations, the group contends. "It is not in the customer's interests to change, because we have so much knowledge of their business," says Mr Gold Blyth.

Unhappy EFG shareholders hit at divestment policy

By Michiyo Nakamoto

DISGRUNTLED shareholders dominated yesterday's annual meeting of EFG, the forestry and home and leisure products group, expressing their dismay at the company's unexpected decision last week to dispose of its core forestry business.

An unusually heavy turnout was a clear indication of the concern of many shareholders at the company's decision to concentrate instead on garden leisure products.

Many shareholders took the management to task over what they considered poor decisions.

"My family's future is tied up in what I though was forestry, not in Christmas decorations, or pot holders and barbecues," one shareholder said.

The company announced the strategic switch in a circular to shareholders only one week before the meeting but the issue was not on the agenda.

As a USM-quoted company it is not required to obtain approval for the divesments.

The resignation in January of Mr John Campbell, the former chief executive who has been in the forestry business throughout his career, also raised suspicions among some shareholders that there had been a board struggle between members who wanted to keep the forestry business and those who wanted to sell it.

EFG built its business on buying, planting and managing forests for investors but this has been in serious decline since tax incentives were withdrawn in the 1988 budget. Forestry, timber and landscaping made up 64 per cent of group turnover last year.

The group reported a pre-tax loss of £84,000 in the year to September 30 compared with a previous profit of £2.01m and in spite of a rise in turnover to £49.9m (£42.3m). Earnings per share plunged to 1.26p from a previous 10.18p and the final dividend was passed.

A succession of acquisitions over the past few years had pushed bank borrowings up to over £9m and the high level of interest costs was an important factor behind last year's profits reversal as well as the decision to restructure the business.

The share price has plunged from a high of 126p in August 1987 to 23p at yesterday's close.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Castle Cairn ......fin	0.7☆	Apr 10	-	0.7	-
Gen Consolidated ....fin	6.11	Apr 4	5.46	10.41	9.46
Kleinwort O'seas.....fin	1.7	Apr 23	1.9	3.2	3
Scot Amer Inv ......fin	0.98	Apr 5	0.9	3.8	3.3

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. ☆Includes special 0.2p.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- GT Venture Inv, Glasgow Income Trust, News Corp, News Int, North American Gas Inv Trust, Photo-Me Int.

Finals- Anglo & Overseas Trust, Crest Nicholson, Norsk Hydro, P&P, Trust of Property Shares, Yeoman Inv Trust.

FUTURE DATES

Interims-

Baldwin .... Feb 19

Brierley Invs .... Mar. 7

Domestic & General .... Mar. 12

Fleming High Inc Inv .... Feb. 20

Jos .... Feb 20

Finals-

BTR .... Mar 13

[illegible] .... Feb. 25

[illegible] .... Mar. 6

English & O'seas Props .... Feb 28

F&C Enterprise Trust .... Feb. 21

Foreign & Colonial Inv .... Feb. 27

German Smaller Co's Inv .... May 7

Hampden Homecare .... Apr. 11

Legal & General .... Mar. 14

MAI .... Feb. 22

[illegible] .... Mar. 4

Ward Holdgs .... Feb. 21

NEWS DIGEST

Paramount rises to £264,000

PROFITS OF Paramount, the pubs and leisure operator which came to the USM in August, rose from £161,000 to £264,000 pre-tax for the half year to November 30 after taking account of a £449,000 rise in interest charges to £550,000.

Turnover rose by £1.55m to £2.66m. Earnings per 2.5p share worked through at 0.47p (0.28p).

The company is seeking to add to the 80-odd public houses it already owns and establish a corporate identity for them. Directors said all houses were showing increased profitability.

Scottish American nav falls 24.9p

Net asset value per ordinary share of The Scottish American Investment Company fell by 24.9p to 113.1p over 1990.

After-tax revenue for the 12 months rose from £8.08m to £9.89m, equal to earnings of 4.42p (3.61p) per share. A proposed final dividend of 0.98p makes a 3.8p (3.3p) total.

Directors said the recommended final indicated an increase of at least 3.2 per cent in the payout for 1991.

Nav declines 27% at Kleinwort O'seas

A 27 per cent contraction in net asset value per share for 1990 was yesterday reported by Kleinwort Overseas Investment Trust.

Nav at December 31 was 157.67p, down from 216.02p at the end of 1989.

Earnings per share improved to 3.58p (3.25p) and a recommended final dividend of 1.7p lifts the total for the year by 0.2p to 3.2p.

Geographical distribution at the year-end showed: UK 18.9 per cent; North America 29.3 per cent; Japan 15.6 per cent; other Far East 8 per cent; and Europe 28.2 per cent.

Castle Cairn assets decline

Net asset value per share of the Castle Cairn Investment Trust stood at 37.94p at December 31 1990. That was a decline of 20 per cent on the 47.48p standing at May 8, the date of the trust's inception.

Total income for the 34 weeks to end-December amounted to £168,710 and after-tax revenue worked through at £93,111. Earnings emerged at 0.78p and shareholders are to receive a dividend of 0.7p, including a special 0.2p payment.

The special dividend reflects an unusually high level of non-recurring income earned from holding significant cash balances in the first few weeks of the trust's life.

Video Store shares suspended at 1¾p

Shares of Video Store Group, the video rental company, were temporarily suspended at 1¾p pending clarification of its financial position.

The loss-making company has been in talks with its bankers for several months about a financial restructuring.

Video Store, formerly known as Goodman Group, transformed itself from a fashion retailer into a video rental chain, and drew up ambitious expansion plans to open 200 stores.

But last November the company announced that a series of setbacks and trading losses had pushed it into overall losses of more than £2.5m since February, thereby breaching its borrowing limits.

The video rental sector was once one of the fastest-growing retail markets but it has recently been severely hit by a downturn in trading, seemingly resulting from a combination of last year's World Cup, the weather, the spread of satellite television, and the recession.

Lawrie disposes of 51% Reece interest

Lawrie Group, a 70.9 per cent subsidiary of Camellia Investments, has sold its 51 per cent interest in Reece, for $6.96m (£3.5m) in cash.

Reece was affected in 1990 by the recession in the clothing industry which led to a continuing decline in demand for its industrial sewing machines and allied products. It reported a $2.7m loss for the first half of 1990 and further substantial losses were incurred during the third quarter.

The loss on disposal of Lawrie's interest in Reece will be about £6.1m. There will be a further loss of about £2.3m on translation from US dollars.

Lawrie said it would reinvest the proceeds when a suitable opportunity arose.

Environmental side lifts Huntingdon

Strong growth in environmental services lifted first quarter pre-tax profits at Huntingdon International, the life sciences and engineering services group, from £3.67m to £4.07m.

The group managed to increase profits in the three months to December 31 in spite of the adverse economic climate and the lower dollar exchange rate which depressed its US earnings. About 70 per cent of sales and 50 per cent of earnings are dollar-related.

Turnover rose 19 per cent to £28.38m (£23.76m) and earnings per share edged up to 3.3p (3.1p).

The bulk of the growth in turnover came from engineering and environmental services, particularly environment-related operations involving technical surveys on the effects of pollution, sample tests and site assessments. Dollar revenues in this division, which were supported by the acquisition of Southwestern Laboratories in Texas, were up 57 per cent.

However, the downturn in the construction industry, depressed the group's engineering revenues both in the US and at Whiteley, the engineering design and consultancy group, acquired in November.

Dean & Bowes £2.3m disposal

Dean & Bowes, a designer and refurbisher of licensed premises, hotels and leisure centres, is to dispose of its TFL subsidiary to the company's management and trustees of KG Ziemer's family settlement for some £2.31m.

The disposal will be achieved by demerging TFL from its parent via the cancellation of the 2.27m ordinary shares (12.3 per cent of the equity) in D&B held by the purchasers.

D&B directors will seek shareholders' approval to purchase up to a maximum 5 per cent of the company's own shares in the market.

General Consolid nav down 46%

The net asset value per capital share of General Consolidated Investment Trust was 138p at December 31 1990.

The figure showed a hefty decline of 46 per cent on the 254.8p of 12 months earlier, with most of the fall coming in the second half; nav at the interim stage in June was 225.3p.

Nav of the trust's stepped preference shares, however, improved over the year from 114.2p to 122.7p.

Net revenue for 1990 rose to £4.71m (£4.2m) for earnings of 10.71p (9.46p) per income share. A proposed final dividend of 6.11p lifts the total for the year by 10 per cent to 10.41p (9.46p). The stepped preference share distribution goes up from 2.795p to 3.005p.

Fleming Overseas net asset value lower

Fleming Overseas Investment Trust had a net asset value of 186.9p per share on December 31 1990 compared with 273.3p a year earlier and 238.7p at June 30.

Gross revenue for the half year to end-December was lower at £4.47m (£4.81m) and net revenue fell to £2.3m (£2.48m) for earnings of 1.72p (1.85p) per share. The interim dividend is maintained at 1.5p.

The geographical spread of the trust's investments at December 31 was: North America 35 per cent; continental Europe 23 per cent; Japan 23 per cent; other Pacific Basin 13 per cent; and UK 6 per cent.

A FINANCIAL TIMES SERIES: Part 1

EUROPEAN FINANCE AND INVESTMENT

THE OVERVIEW

Most of Europe has suffered in recent months from growing economic uncertainty and the impact of the Gulf crisis. Yet a strong tide of expectation has been created by the progressive unification of the European Community and the liberalisation of eastern Europe, writes David Lascelles

Knotty tasks ahead

AN ANXIOUS furrow is creeping across Europe's brow. The air of anticipation with which it embarked on the 1990s has proved much less durable than many people hoped. Economic momentum, firm until the middle of last year, is being dissipated by recession and the uncertainties of the Gulf war. At the same time, progress towards the creation of the EC's single market is running up against hard and complex political realities. And in east Europe, the euphoria of liberation has given way to the grind of reform and an increasingly ugly scene in the Soviet Union.

For Europe's finance industry, all this has spelt out a clear message: caution.

Not that anyone expected 1991 to be an easy year. Germany's preoccupation with the task of reunification was bound to make the continent's most powerful member more introspective – as shown by the Bundesbank's recent decision to raise interest rates in spite of the obvious difficulties this would cause to its European partners.

The OECD is forecasting lower growth for virtually every economy in Europe this year, and the UK and Sweden are scheduled to hit the depths of a recession. Mr Giovanni Agnelli, one of Europe's leading industrialists, summed up the mood when he said last month that 1990 had ended with an air of "uncertainty and pre-occupation".

At this point, economists find it hard to be precise about the outlook because so much depends on the war. But the effect has been to cause wavering in Europe's stock markets, and sharply reduce investment flows.

For many of Europe's financial institutions, particularly its banks, the uncertainties are already beginning to show through in lower profits as loan losses and lower fees take their toll. French bank results are worsening, and the UK clearers, which are due to report at the end of this month, may well show the highest loan loss provisions on record.

In some countries, the financial sector is suffering the additional strains caused by another fashionable trend: deregulation. Over the past 12 months Germany, Switzerland and Spain have abolished constraints such as price cartels, interest rate curbs, and limitations on foreign participation in domestic financing.

At a Community level, the restructuring of Europe's financial markets is being pushed ahead by Brussels with a steady flow of directives for 1992. The entry of the UK into the Exchange Rate Mechanism in October added to the sense of progress. In theory – at any rate – there is now virtually complete freedom of capital movement within the EC, though in practice the restrictive habits of the past ensure that barriers remain.

In the financial services sector, most of the EC's regulations for banking are now in place, clearing the way for banks to establish themselves freely throughout the EC after 1992 by using the "single passport" concept.

There has been less progress in investment services and insurance where directives have run into some well-entrenched local opposition. The main concerns among EC members are the technical ones of providing adequate protection for consumers, and the political ones of ensuring that 1992 does not simply open the door for business to migrate elsewhere. At a practical level, European stock exchanges are exploring ways of linking their markets, though they, too, are finding it hard to shake off their self-protective instincts.

However, the single market debate this year will be overshadowed by the two inter-governmental conferences (IGCs) on political and monetary union. Set in motion last December, the IGCs are examining ways of improving EC democracy, and shaping proposals for the move towards a single currency and a European central bank. But both these issues threaten to expose divergent national interests as much as foster integration.

The combined pressures of harder times and regulatory liberalisation are having a marked impact on structural change in Europe by, for example, encouraging banks and firms to seek strength in merger. But the initial 1992 enthusiasm which spawned a mass of new alliances is showing clear signs of cooling down.

The 1990 statistics reveal a falling off in mergers, acquisitions and joint ventures between financial service companies, for two reasons. The economic uncertainties mean that big strategic steps require greater boldness than before. But financial executives are also learning that, on closer inspection, the market offers fewer good opportunities for cross-border alliances than they once thought.

In particular, Germany, the country most firms would like to penetrate, has little for sale. More than that, the German corporate establishment is still able to mount a formidable defence against unwelcome foreign incursion, as the recent closing of ranks around Continental, the tyre maker, in the face of a takeover threat by Pirelli demonstrated.

Recently, the process of consolidation has been more conspicuous within individual countries. In Scandinavia, the Netherlands, Switzerland, Italy and Spain, banks have been on a merger binge which has greatly reduced their numbers.

The greater fluidity brought on by financial liberalisation is also encouraging more cross-fertilisation between different segments. For example, banks are expanding into fund management, banks and insurance companies are teaming up to share products and distribution networks, and commercial banks are buying in the skills of merchant bankers. This suggests that such groups as Deutsche Bank, which now combines virtually all types of financial service, and the proposed merger of NMB-Postbank (one of the Netherlands' largest banks) and Nationale Nederlanden (its largest insurer) could herald the EC conglomerates of the future.

The shaking down of the European market is also sharpening competition between individual centres, and posing national governments with the dilemma of whether they can best further their own centre's interests by becoming more protective or more open.

The French government, for example, is widely believed to be opposing parts of the proposed investment services directive because it wants to protect the Paris stock exchange from foreign competition. Yet the trend in other countries is, as already noted, towards liberalisation and openness.

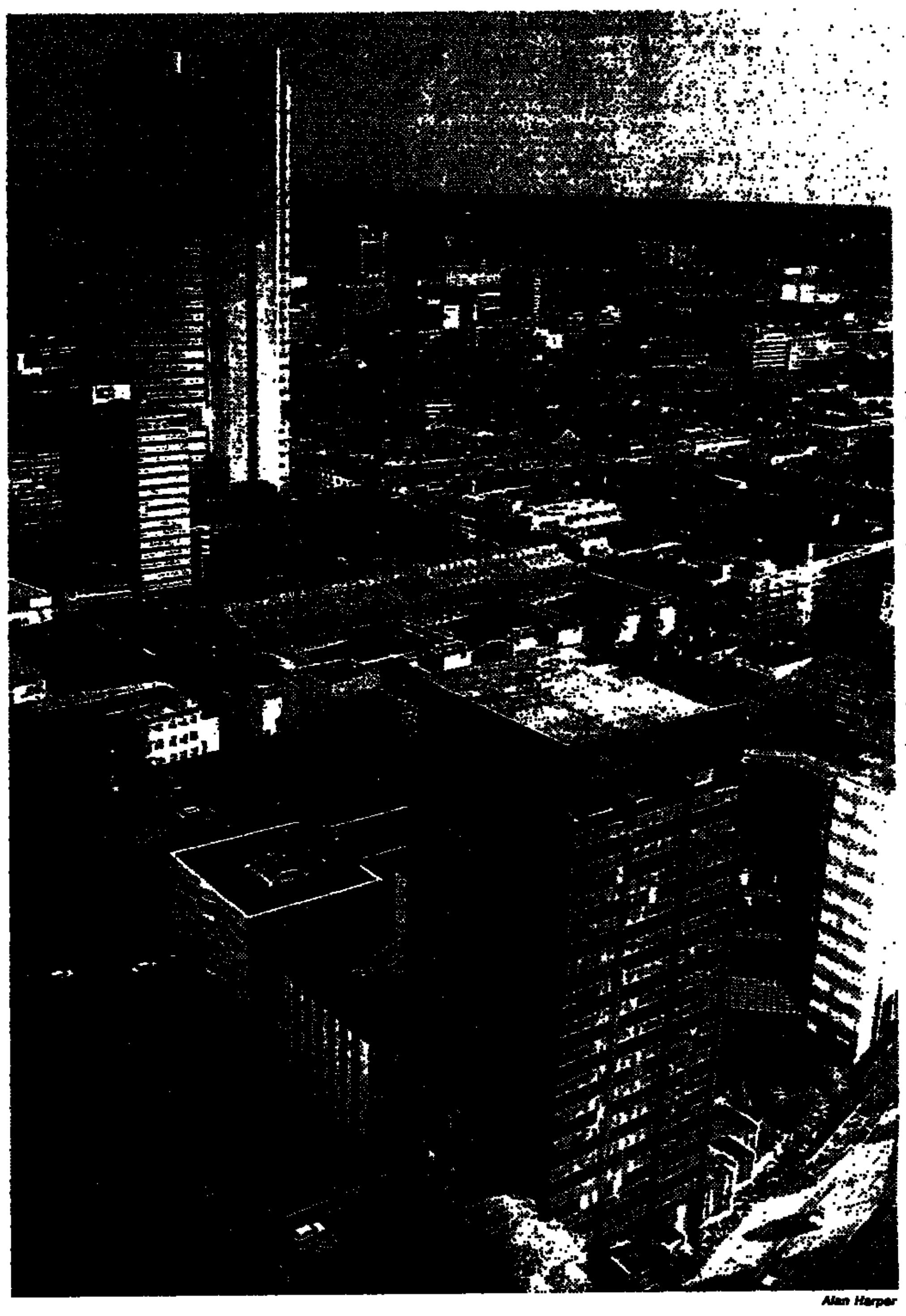
Although London still dominates Europe in the size and diversity of its markets, as well as in the number of its financial institutions, the City has become much more conscious about the threat that continental centres pose to its business. The recent local authority swaps affair, which cost foreign banks a lot of money, has given other EC countries a pretext for questioning the safety of the London markets.

Frankfurt's steps towards liberalisation have increased its appeal, and the decision of the Bundesbank to remain there rather than move to Berlin has ensured its position as the centre of EC monetary policy-making. But it has not yet managed to shake off a reputation for being uncompromisingly German.

Paris, by contrast, has created a more hospitable image for itself, and both its institutions and its markets have become much more internationally minded. But foreign institutions still view the state's influence as pervasive.

Europe's anxieties will not be dispelled quickly. The region's weakest economies will not start recovering until late this year at the earliest. Meanwhile the unification process will be grappling not just with the ideals of liberalisation and integration, but with knottier problems of how you actually make it work.

IN THIS SURVEY



Alan Harper

Frankfurt – the centre of the European Community's monetary policy-making

ECONOMIC PROSPECTS

Slowdown worse than feared

THIS YEAR was always likely to be a difficult one for the European economy.

In spite of the spur given to economic growth by German union, it was apparent by the middle of 1990 that the industrial world was slowing down.

Since then, the Gulf crisis, leading to war, has ensured that the *sustained* upswing of economic activity that characterised the 1980s, and which fuelled the global equity boom of that decade, has become mostly a memory.

However, continental Europe may still achieve an economic first this year. It is likely that the continent's economies will continue to grow, shrugging off the effects of recession in the big English-speaking countries – the US, Britain, Canada and Australia – for the first time.

Germany will continue to be Europe's economic locomotive with growth of around 3 per cent this year. But elsewhere, economic growth in Europe is likely to be limited.

There are also signs that the German boom is starting to fade as the economic boost conferred by union on the former west Germany weakens,

Germany will still be Europe's economic locomotive but its boom is set to fade

and the new Länder, or federal states, that used to make up east Germany suffer a deep recession as they struggle to adjust their economies to the rigorous competitive standards of the rest of the European Community.

Among the major EC economies, Britain is in a recession that appears more grave with every set of official statistics. Growth forecasts for France and Italy are being scaled back so that output this year is likely to rise by well below potential. Outside the Community, Sweden is expected to suffer recession, while the outlook in Switzerland is at best humdrum.

Some indication of how far economists believe prospects have worsened in recent weeks can be gleaned from the accompanying table that compares the latest 1991 growth forecasts in some key European countries from Goldman Sachs, the US owned international investment house, with those published in late December by the the Organisation for Economic Co-operation and Development. The Goldman forecasts were chosen simply because they are recent, dating from the end of January. But projections from other private-sector economists give a similar picture of diminishing expectations.

European Growth Prospects
Percentage changes in real GNP growth

	1990†	1991†	1991*
Germany	4.2	3.0	*3.3*
France	2.5	2.3	*1.2*
Italy	2.6	2.4	*1.5*
UK	1.6	0.7	*-1.2*
Spain	3.5	2.7	*2.5*
Switzerland	2.5	2.0	*1.5*
Sweden	0.9	-0.5	*-0.3*
(US	1.0	0.9	*0.1*)
(Japan	6.1	3.7	*3.6*)

†Source: OECD Economic Outlook, No 48, December 1990.
*Source: Goldman Sachs, World Investment Strategy Highlights, February 1991

The Gulf crisis has eroded confidence ever since Iraq's invasion of Kuwait last August. The EC Commission's consumer confidence index registered a sharp decline in most member states from July last year. The EC's industrial *confidence indicator* has also dropped everywhere except in western Germany, although the fall has been less steep and from an earlier peak.

Since the war started, anecdotal evidence has suggested that investment and consumer decisions in most industrial countries have come to a standstill. This is clearly bad for business activity and the investment climate in the short term.

However, the early establishment of allied air supremacy appears to have banished the fear that Iraq could seriously damage or destroy the Saudi oil fields. Before the fighting started, analysts had generally expected an upward spike in oil prices to around $40 or even $70 a barrel. The early allied successes were instead followed by a sharp drop in the oil price to around $20 a barrel.

The behaviour of the oil price has greatly reduced the risk of the war giving an extra upwards push to inflation in Europe. But although oil prices are virtually unchanged from a year ago, the investment climate has taken a turn for the worse in other respects.

● The international trading system that has played such a vital role in promoting global economic growth in the post Second World War world has been under threat since the breakdown of the Uruguay Round multilateral trade liberalisation talks in December.

● The growing economic and political crisis in the Soviet Union is creating an area of heightened geo-political uncertainty on Europe's eastern border.

● The months since the eclipse of Communism in eastern Europe have exposed the huge economic problems faced by the region and its lack of capacity *for home-grown* economic growth.

● Iraqi terrorism will be a *threat in the industrialised* countries, irrespective of what happens to Saddam Hussein's *troops in the desert.*

The EC's 1992 programme to create a barrier-free Europe *still* provides some incentive for investment and expansion in in western Europe. But other factors that once promoted growth have faded into the background. Because of the falling dollar and high domestic labour costs, European products have become more expensive than those of foreign competitors, undermining the continent's trading position and reducing the incentive of corporations to invest in the region.

Europe's dwindling competitiveness highlights the region's dilemma. On the one hand, Germany's sharply expansionary fiscal policy should provide *a continuing focus* of growth and demand in the EC.

But the need of the German Bundesbank to counter the inflationary implications of German union by a tight monetary policy is slowing growth in other members of the European Monetary System.

Germany's policy of ratcheting up interest rates to combat *inflation is hitting its* European partners in two ways. They too have to apply tight monetary policies at home while the D-mark's strength is lifting other currencies against the dollar and hitting EC exports to third countries.

Sterling's DM2.95 EMS central rate, established when the pound became a member of the exchange rate mechanism in October, has been partly blamed for Britain's recession.

In France, recent indicators of industrial output suggest a slowdown in the fourth quarter after comparatively robust third quarter growth.

A similar picture emerges in Italy, where the economy appears to be slowing as a result of a tight monetary pol-

One crumb of comfort: inflationary pressures should be less than previously anticipated

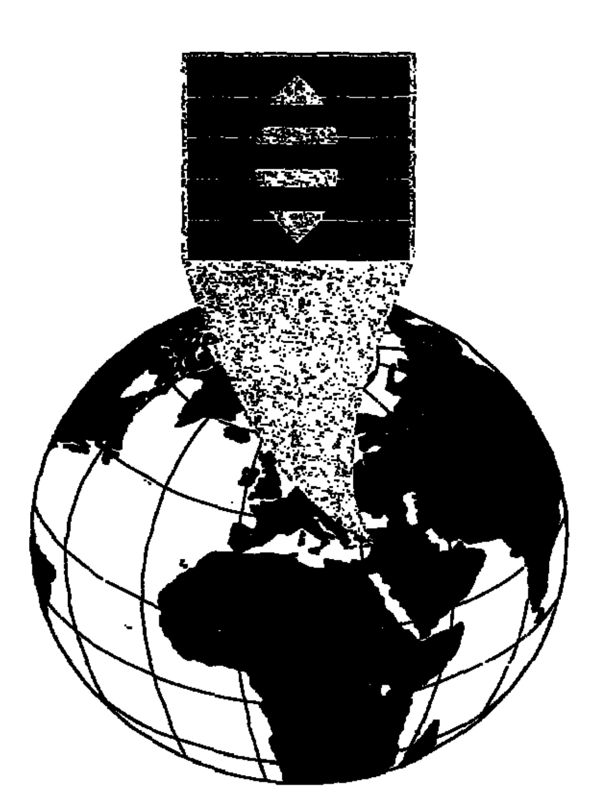
icy and Gulf War related factors.

For investors, the likelihood that *this year will* witness a sharper than expected slowdown in the European *economy contains one crumb of* comfort. Inflationary pressures should be more muted than previously anticipated.

In these uncertain times, lower inflation should sustain the generally favourable climate for bonds that has been apparent since last autumn. Indeed, the world's equity markets have recovered from their post-Kuwait invasion low of last September.

But only the brave would see the current economic and political climate in Europe as the foundation for a new bull market.

Peter Norman
Economics Correspondent



Lucy Kellaway looks at the progress towards the single market

From an idea to reality

EUROPE'S single market in financial services was never going to be easy to accomplish. *In spite of being* one of the most important EC sectors (some 7 per cent of Europe's gnp), financial services had traditionally been left as the exclusive domain of member states.

Until some five years ago it was thought in Brussels that things financial were of too immediate an interest to individual governments to be meddled with. A feeble attempt to break down barriers in insurance failed to get anywhere, and the only *signs of EC harmonisation* were minor technical directives on banking reserves.

When the plan for the single market were drawn up in 1985, almost nothing had been achieved, and the 50 or 60 directives that were deemed necessary to create a single market in financial services seemed a daunting task. The problem was not only that the markets were highly fragmented, with different ways of doing business in member states, but that there seemed little political will on behalf of member states to bring about the single market, if that meant changing their ways.

However, the picture now looks considerably brighter, and the major legislative pieces of the single market are either already in place or within sighting distance. The political battle appears to have been won; member states agree at least in principle that creating a single market is worth it, even if it means dropping time-honoured business practices.

The aim is to end the continent's fragmentation and to establish Europe as a financial market well able to compete with those in Japan or the US. This has meant pulling in two directions, breaking down existing restrictions in individual countries, while at the same time imposing new rules in order to ensure that the new large market is adequately regulated.

This means achieving three things:

■ freedom of capital movements, which was established last July, when all remaining exchange controls were lifted;
■ giving companies the right to set up business anywhere in the EC;
■ giving *companies the right to provide* services anywhere in the EC.

Brussels is approaching this task sector by sector. The rules for the most important sector – banking – were agreed in 1989, when the Second Banking Directive was adopted. This has set the pattern for the new structures in other sectors.

The directive will allow banks to do business *anywhere* in the Community based on a "single passport". This would be issued by the bank's home country, which would be responsible for regulating the activities of the bank wherever it was doing business.

Regulators in one country therefore have to accept the competence of those in others to do their job – what is known in EC-speak as "mutual recognition". As a safety net, a set of minimum rules that will apply to all EC banks has been agreed that lays down what can be included in the definition of "own funds", and sets minimum solvency ratios.

An important aspect of the single banking market is the open attitude displayed to banks in third countries. In spite of considerable pressure from some member states to keep out non-EC banks from countries that do not offer EC banks all the freedoms they get at home, a much looser form of reciprocity has been agreed upon. This means that third countries need only show that they are not discrimi-

The major legislative pieces are already in place or within sighting distance

nating against EC banks in their home market in order to have full access to the EC's banking market.

The other parts of the single market are progressing rather more slowly. The Luxembourg presidency of the Council of Ministers is determined to get agreement on the investment services directive before its term runs out in June. This directive will do for investment firms what the second banking directive has done for banks. However, to get agreement, the heads of the UK, France and West Germany need to be banged together, as they are still pursuing their own models for what the integrated market should look like.

At the centre of the dispute lie different ideas of what constitutes a regulated market, and how rigid should be the market structure. France has been pressing for a system that would be highly restrictive, and would allow stock exchanges to have a monopoly on trading in certain shares – an idea that is anathema to the UK. Different countries also have different ideas about price transparency, about membership of stock exchanges and so on.

A related directive, setting the minimum capital rules for investment services firms, is also having some trouble. Once again, there is a problem in finding a system that will suit both Germany, where securities trading is done through its huge banks, and the UK, where it is done through small specialised firms, which could be put out of business by capital requirements that are set too high.

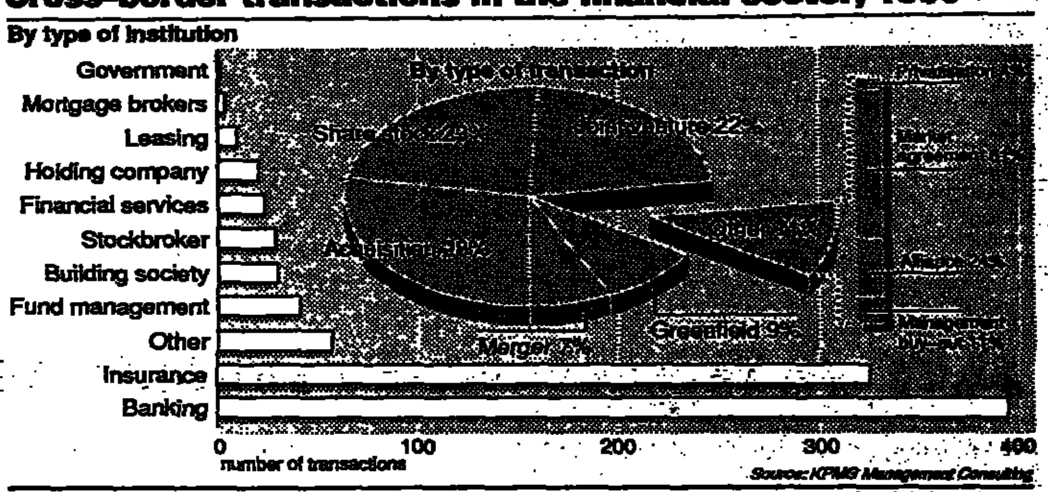
In insurance, some progress has been made that will allow firms to sell products anywhere in the Community, with the second non-life directives. These allow insurance companies to sell large risk business where they like, and also to sell smaller business, but only if clients have sought it on their own initiative. However, the big prize will be the single insurance passport, which is only now starting to be negotiated.

In addition to the directives, which were part of the single market "grand plan" laid down in 1985, new areas are emerging in which further action from Brussels appears to be needed. One such is in pension funds, and a spate of proposals is expected to put the business on a common footing throughout Europe.

The second is in payment systems. It is becoming increasingly clear that there cannot be a single market in financial services when changing money from one EC currency to another is so time-consuming and expensive. Ignoring the banks' anxious desire to preserve their foreign-exchange commissions, Brussels is in the process of drawing up plans that would make the payments system work more efficiently.

But these may only be an interim step. If Europe gets a single currency – which would give a greater boost to the financial services industry than any of the proposed directives – the need for all such special arrangements would disappear.

Cross-border transactions in the financial sector, 1990



Source: KPMG Management Consulting

David Lascelles charts a trend

Banks set the pace on integration

THE BANKING industry – hard-pressed though it is – seems to be leading the way insofar as the closer integration of the European financial markets is concerned.

Nearly half of all mergers, acquisitions and alliances in the financial services sector last year involved banks in some shape or form, according to an annual survey by KPMG Management Consulting. These ranged from major cross-border acquisitions, such as Barclays Bank's £100m payment for Merck Finck, the *Munich private bank, to a host* of small investments by one institution in another to *cement a relationship.*

In a sense, this is not surprising. Banking is already the most international of the financial services, and the regulatory structure for the single market in banking is almost completely in place. So banks are geared to move ahead. But they are also being driven into alliances by pressures of competition and changes in their home markets.

The Barclays deal singled *the UK clearer out as one of* the most aggressive banks on the European scene. Shortly *afterwards, it added the £153m* purchase of l'Européene de Crédit, a Paris-based retail bank. Competitors noted that Barclays seemed willing to splash out large sums to build up its European empire; Sir John Quinton, its chairman, is keen to achieve a strong position in all of Europe's big banking markets.

More typical of the cross-border links that are pulling the European market together were the acquisition by two Italian banks, Monte dei Paschi di Siena and Istituto Bancario San Paolo di Torino, of minority stakes in two small Spanish banks. These form part of a *growing web of relationships* through which banks are gaining footholds in new markets right across *Europe without* having to make outright acquisitions.

Nor have deals been confined to banks buying each other. The French banks in particular are actively *using* cross-border growth to expand into new sectors. Two of them, *Crédit Commercial de France* and Banque Indosuez, acquired stakes in London-based fund *management firms Framling*ton and Gartmore. Crédit Lyonnais bought into the Irish *leasing firm, Woodchester.*

The liberalisation of the securities industries in Italy and Spain is creating new opportunities for foreign participation in both those countries' stock exchanges.

Another trend has been the growing number of alliances between banking and insurance companies. The proposed merger of NMB-Postbank and Nationale Nederlanden, the Netherlands' largest insurer, *underlines the benefits that* institutions expect to gain from sharing products and distribution outlets. *It highlights* the relatively liberal regulatory regime operating through most of Europe which permits cross-sectoral combinations.

But analysts also warn of the dangers of exaggerating these apparent trends. For one thing, the KPMG *survey showed a* decline of 25 per cent in mergers, acquisitions and alliances *between the first and last quar*ters of last year. Several large deals failed to materialise, among them an ambitious three-way link-up between Commerzbank, Banco di Roma and Banco Hispano Americano, and a proposed exchange of branches between Banque Nationale de Paris and Banco Bilbao Vizcaya.

This reflects the growing difficulty in valuing deals at a time of heightened uncertainty in the market. Some bank managements are also having *second thoughts about rushing* into expensive acquisitions. Many have decided to concen*trate on their own doorsteps* rather than move abroad.

After the wave of mergers *which reduced the major banks* in Scandinavia to barely a third of their previous number, consol*idation* has now hit other countries, including the Netherlands, Switzerland and *Italy. The Dutch* big five have been reduced to three with the merger of NMB-Postbank and ABN-Amro. These two alliances happened with the encouragement of the banking authorities who wanted larger and stronger Dutch banks to compete internationally.

In Italy, the passage last year of the Amato Law has opened the way for far-reaching restructuring and modernisation of the notoriously creaky banking system. A conspicuous lead has been taken by the Cassa di Risparmio di Roma, the country's *second* largest savings bank, which has bought Banco di Spirito *Santo and 65 per cent of* Banco di Roma. Other measures such as the relaxation of curbs on branch openings and more extensive public listing of bank shares should also pave the way for a much more competitive banking sector.

German banks have become less active internationally for the good reason that they are preoccupied with the *country's* reunification, where they are playing a central role. The *absorption of* the former east German territory into the western banking system has proceeded more quickly and smoothly than bankers expected. Deutsche Bank, which invested DM1bn in its new east German operations, is now concentrating on increasing domestic market share, says Mr Hilmar Kopper, the chief executive.

Germany has been one market where deregulation *has* also added a spur to change. The recent liberalisation of the capital *markets and the intro*duction of commercial paper will unleash greater competi*tion. Similar* uncomfortable changes – from the banks' point of view – have occurred in Spain with the introduction of interest payments on banking accounts, and in Switzerland with the break-up of the banking cartels. Dr. Giorgio Ghiringhelli, *president of the* Lugano-based Banca della Svizzera Italiana, says further con*solidation among banks* is "inevitable" as Swiss competition hots up.

Though varying from country to country, these reforms are all symptomatic of a European desire to strip out protective rules and force banks to live in the real world. But these will also put bank profits under pressure.

The immediate outlook for European banking is clouded by economic uncertainty and *worries about the Gulf. The UK* banks, in particular, face a tough year as recession drives up credit losses and could trigger some restructuring. Further out, integration will continue but possibly at a more cautious pace.

Barry Riley sees a check to the pace of international deals

The portfolio manager who was left on the shelf

LAST MONTH the independent Scottish fund management company Murray Johnstone, controlling portfolios worth some $8bn, was left on the shelf despite courting some 20 potential suitors since last October.

This marked a major change in conditions, because until recently British investment management firms appeared to be almost irresistible to various continental institutions. Dresdner Bank bought Thornton, Indosuez snapped up Gartmore and Bank in Liechtenstein acquired GT Management, among many examples. More than anything, the continental buyers were looking for global expertise in equity investment, something that is very thin on the ground in continental financial centres apart, perhaps, from Switzerland.

Two developments sparked this takeover boom. One was the long 1980s bull market in equities around the world which faltered in 1987 but did not finally come to an end until the very beginning of 1990. Secondly, from about 1988 onwards there was serious concern about the implications of a single market in financial services from the beginning of 1993.

In fact, the single market came early to the mutual fund business which is subject to the so-called Ucits Directive (standing for Undertakings for Collective Investment in Transferable Securities).

Officially with effect from October 1989, but in practice only quite recently in most countries as local legislation has been passed, it has become possible to market retail investment funds across frontiers. Other forms of investment such as life assurance are scheduled to follow suit in January 1993, and pension fund harmonisation is also in the pipeline.

This has prompted a great deal of strategic analysis by financial institutions across the European Community. It has emerged, however, that in most member states of the EC the distribution of investment products is in the hands of a few big retail institutions, usually banks or life assurance companies. The main exception is the UK, where there is a significant network of independent financial advisers, permitting the growth of independent investment management businesses.

Also, external management of company pension funds is common in the UK, giving a further opportunity for independent fund managers to build business.

Many of the British investment houses have fancied their chances of selling high performance products into continental markets against the competition of the domestic bond-based alternatives. But distribution has posed a major obstacle. So a frequent solution has been the purchase of UK fund managers by continental banks.

Over the past year, however, the waning of the long boom in equities has raised question-marks over many of these deals. Suddenly bonds look a better bet; indeed, several British fund management houses such as Baring Fund Managers and Mercury Asset Management are launching new global bond products, and various London firms are seeking to improve their expertise in bonds.

Moreover, the global banking crisis has concentrated the minds of bankers. They need to husband their resources to be able to hit the Basle capital adequacy ratios in the context of heavy loan write-offs. So expensive acquisitions of peripheral financial activities, such as fund management, have gone right out of fashion.

Nevertheless, the logic of European integration remains, and in more favourable conditions the pace of international deals will no doubt pick up again. For the moment, however, the main focus of development on the private client side is in the exploitation of tax and regulatory advantages by countries such as Luxembourg and Switzerland.

From within and without the EC respectively, these two centres have focused on so-called "private banking", with Luxembourg tending to be a little downmarket compared with Switzerland. Luxembourg has also turned itself into a retail funds centre by capitalising more than any other EC member state on the potential of the Ucits legislation. The grand duchy now plays host to over 700 funds worth more than $60bn, for the time being staving off the threat of harmonisation of withholding taxes which might threaten its role as the EC's investment tax haven.

Over the past year, the waning of the long boom in equities has raised question-marks over many of these deals. Suddenly, bonds look a better bet

Interestingly, however, Luxembourg has mostly confined itself to the administrative side of investment management. The actual investment advisory side is often delegated to wholesale financial centres, notably London but possibly also Frankfurt in bonds.

A similar split can be observed in Switzerland: private clients are serviced in Geneva, Berne or Zurich but banks such as Pictet or Lombard Odier run separate subsidiaries or associates in London to meet the different requirements of international institutional clients such as US pension funds.

London has acquired a critical mass in global equity management: there is a pool of experienced professionals, backed up by high quality securities trading firms which provide research and analysis as well as dealing facilities.

There is some encouragement for London in that Deutsche Bank, than which they come no bigger, has decided to focus its global equity activity on Morgan Grenfell, the City of London merchant bank, which it acquired rather more than a year ago.

But the sheer power of the global bond business should not be underestimated. Total German bond issues have been running at over DM300bn gross, a figure which dwarfs net equity issues in the whole of Europe.

Moreover, the Germans have become much more international in their bond dealings. During the decade 1980-90, for instance, the proportion of German mutual funds invested in domestic bonds fell from 56 to 7 per cent, and the proportion committed to foreign bonds climbed from 19 to 54 per cent.

With the pendulum swinging back to Germany and its bond expertise, the battle between the German and British styles could intensify. The struggle has led to delays in implementing the Investment Services Directive, which the Germans would like to favour large institutions (five institutions control 85 per cent of the German domestic mutual funds market) whereas the UK, with some support elsewhere, wishes to ensure the openness of the fund management industry.

How the arguments work out will determine the future of minor players such as Murray Johnstone.

PROFILE: **Chartered WestLB**

An Anglo-German link-up

DEUTSCHE BANK'S acquisition of Morgan Grenfell, possibly the most dramatic cross-border alliance in Europe to date, has tended to overshadow a similar link-up between another large German bank, Westdeutsche Landesbank and Standard Chartered Merchant Bank.

Struck just over a year ago, the aim of this alliance was similar: to combine the industrial client list of a powerful German bank with the corporate finance know-how of a British merchant bank. But Chartered WestLB, as the combined venture is known, has got off to a slower start, partly because of German bureaucracy, partly because of the current slump in the corporate finance market.

The venture was created out of a complex deal in which WestLB bought Standard Chartered's European branches and half its merchant bank for a total of DM400m, enabling Standard Chartered, weakened by losses, to realise some much-needed capital. The bank is now run from London where it has 230 staff, but there is also a new 60-strong office in Düsseldorf.

Its business consists of the traditional merchant banking activities inherited form Standard Chartered – including

Patrick Macdougall: "We've got all we can handle"

corporate finance, project finance and asset trading – as well as WestLB's mergers and acquisitions team. A venture capital business was added when a team was wooed across from Citibank in Frankfurt.

According to Mr Patrick Macdougall, the chief executive, there were early difficulties because the German authorities were unaccustomed to the idea of a merchant bank, and were slow to approve the Düsseldorf branch. Staffing it with merchant bankers rather than commercial lending bankers was also a challenge. The bank has been operating fully only since September.

But the flow of business is now starting to come in, says Mr Macdougall. "There's a substantial workload coming from WestLB's corporate connections. We've got all we can handle with our present staff." There have not been any actual corporate finance deals, but several are in the pipeline, he says.

Much of the challenge of the venture lies in combining the widely differing cultures of the British merchant bank and the German commercial bank. The intention is that Chartered WestLB should have the Anglo-Saxon merchant banking culture, because these are the skills that WestLB wants to import into Germany, according to Mr Hans Peter Peters, WestLB's main board director who is Chartered WestLB's chairman. "We wanted to complement our product line on the advisory side," he says. "We're making progress on all fronts, cultural, personal, business."

Mr Macdougall says that a London merchant bank has a certain cachet in the German corporate market which, apart from anything else, enables it to charges fees for services which German companies take for granted from their own local banks. That is one reason why he is keen to open another branch to extend its reach. It will either be in Frankfurt or Berlin.

Much of the bank's business will be within Europe, and even within Germany as reunification proceeds. But the Standard Chartered group's strong traditional connections with south-east Asia are expected to be of interest to the Germans. The merchant bank's strong third world debt trading business has also brought it expertise in Latin America.

Inevitably, the sceptics wonder whether Standard's recent well-publicised problems will provide a sound enough foundation for the alliance.

Mr Peters brushes these concerns aside. "We're over those difficulties," he says. "We're looking to the future. We feel we have a very good partner." Following a recent meeting in Düsseldorf between the top executives of the two parent banks he predicts: "I think you will see signs of closer co-operation in the future."

David Lascelles

STOCK MARKETS

Level playing fields may not be open to all-comers

THE UK: 1986. France and Spain: 1989. Italy: 1991. These are the "big bangs" and "mini bangs" which have revolutionised Europe's stock markets in recent years, at the same time throwing participants in the securities markets into turmoil.

The coming years will see the reckoning. As in the US after its own May Day deregulation more than a decade ago, the restructuring and subsequent wars of attrition are proving painful and protracted.

A common objective has prompted the overhaul: the desire of each country to boost its domestic stock market. This move to enhance local capital-raising machinery has been fuelled by a fear that companies will migrate to other financial centres to raise funds, striking at the heart of a country's own financial system.

The deregulation imperative has swept a small band of rich and cossetted people before it. These are the stockbrokers who have for decades enjoyed monopolies over their local markets, and fixed commissions which have guaranteed them a good living.

The widespread resentment and envy of stockbrokers, who in many cases have done little more over the years than match buy and sell orders and taken a commission for the effort, means that few tears have been shed over the breaking of their monopolies around the Continent.

Many, anyway, have made a second killing by selling out to the banks which had previously been barred from the stock market. In part, this is because their monopolies have not been swept away in one go. In France, Spain and Italy, for instance, outsiders will not get completely free access to the stock market for another two years, and so must rely in the meantime on associations with existing brokers.

In Switzerland and Germany, where the stockbroking business has been the preserve of a powerful group of banks, things have proceeded at a less dramatic pace. But there have nonetheless been some important developments – for instance, with the abolition of the banks' fixed commissions in Switzerland last year.

Where is it all leading? Is a new group of super-brokers, backed by the Continent's biggest banks, about to sweep Europe before it? The answer depends on what happens in a each national market as competition takes hold – and on how cross-border trading is conducted in the new Europe.

In the UK and France, the opening up of old cartels is proving painful for those who have come into the market. These countries are overbroked, with too many firms chasing too little business, but each with a Europe-wide strategy that justifies it hanging on through the bad times.

Mr François Bacot, of Bacot-Allain, the leading Paris broker owned by the UK's S.G. Warburg, estimates that 30 per cent of French equity turnover in 1990 was handled by foreign-owned brokers. In 1991, he predicts, that will rise to 40 per cent. "There aren't many markets where foreign competitors have that much of the business," he adds.

Yet in Paris, as in London, a handful of leading firms seems to be hanging on to its share of the domestic equity business, buttressing them from the worst of the pressures felt by the rest of the market. It is too soon to be sure, but this suggests that a core of firms will continue to dominate each local market once the cartels are swept aside. Unlike members of the old cartels, though, these firms will prosper because of the quality of their service, effective execution of

Continued on Page 4

David Waller on the trail of mergers and acquisitions

Prospect of future business in spite of current inaction

WAR, TERRORISM, recession: three formidable depressants of business confidence. Against this sort of gloomy background, it is hardly surprising that the corporate finance industry is in the doldrums. Few deals are being done within individual European countries; fewer still cross-border transactions are being completed.

"There has been a noticeable softening in the market over the last six to eight months," says Mr Philip Evans, a former director of corporate finance at Morgan Grenfell who now is head of corporate finance at Paribas in London. "Between June and September last year we were working on three large transactions, each one of which fell at the last hurdle."

"The whole industry is on hold," says Mr Peter Kellner, deputy head of Morgan Stanley's European M&A department. "Clients are watching their own businesses go into recession and don't feel inclined to do transactions – unless there are compelling financial reasons to make a disposal. Nine times out of 10 we're telling our clients not to sell: potential buyers are hunkering down.

"The only reason to go out there and do a deal is if a particularly attractive strategic property comes on the market," Mr Kellner adds. "There aren't a lot of these around at the moment."

Bankers are hopeful that the current period of inaction – punctuated as it has been by the Continental/Pirelli saga and Guinness' £533m acquisition of Cruz del Campo in Spain – will not last for long. Some contend that the current slowdown is but a temporary blip and the restructuring of European industry will again gather pace once business confidence returns – perhaps soon after the Gulf War is brought to a satisfactory conclusion.

"It's got to happen," asserts Mr David Hinde, executive director, international corporate finance, at Samuel Montagu. "If it doesn't, the 1992 single market programme simply won't exist.

"We expect M&A business in Europe to expand steadily in the next 10 years. There are thousands of large family businesses out there which are bound, sooner rather than later, to start merging, doing deals, going public. They will need advice from investment bankers and consultants."

Three categories of investment banks are ranged against one another in the pursuit of this kind of business – and the larger deals involving Europe's quoted companies. There are the US houses – such as Morgan Stanley, Goldman Sachs, Salomon Brothers and Merrill Lynch – which have been marketing themselves to European corporates for a decade or more. There are the continental European banks. Then, there are the UK-based merchant banks.

Paradoxically, the success of the US houses is attributable at least in part to their not having a strong presence in local European markets

The Americans undoubtedly dominate the market in "big-ticket" transactions between large quoted companies. The long years of marketing themselves to the chief executives of Europe's biggest companies have paid off, and they are to be found on both sides of a large number of significant cross-border deals.

Take the Guinness deal: the UK drinks giant was advised by Goldman Sachs, the Spanish company by Chase Manhattan. In the recent sale of Montedison's 40 per cent stake in Enimont to the Italian state, Enimont was advised by Merrill Lynch and Goldman Sachs while Ferruzi, Montedison's parent company, was advised by Morgan Stanley. Merrill Lynch is advising Pirelli in its as yet unsuccessful attempt to merge with Continental. Continental is being advised by Morgan Grenfell, the UK merchant bank now owned by Deutsche Bank.

Paradoxically, the success of the US houses is attributable at least in part to their not having a strong presence in local European markets. This made them concentrate their marketing efforts on cross-border deals, an area of business neglected by domestic players who for most of the 1980s found themselves with more than enough business to do at home. Their US contacts were profoundly useful, too: North American clients represent a huge network of potential parties to transactions involving European companies.

In the UK, there is a huge pool of sophisticated corporate finance talent. Some of this has been deployed with notable success on the Continent – Warburgs and Schroders, for example, have initiated numbers of sizeable transactions, and Samuel Montagu tops the league tables in terms of the number of deals done – but it is questionable whether UK advisers in general will prosper from the restructuring of continental European industry.

Many of the more successful domestic players simply did not start thinking about the Continent until the present lull in domestic business – and thus may be too late to start building the sort of contacts needed to prosper in a difficult and competitive market. Moreover, transactions in the UK have tended to be driven by financial rather than industrial imperatives: it is unlikely that the Continent will adapt easily to Anglo-Saxon bid culture.

That leaves the strong, domestic players, like Lazard Frères and Paribas in Paris or Mediobanca in Milan. They have impeccable local contacts, often cemented by investments. They may, however, lack M&A expertise, and it is no doubt for that reason that Paribas, for example, has recruited Mr Evans and a number of other UK merchant bankers. Deutsche Bank signalled its own faith in the future of Anglo-Saxon style corporate finance when it bought Morgan Grenfell at the beginning of last year.

There are still bursts of activity on the International Petroleum Exchange in London (photograph by Tony Andrews)

PROFILE: **Compagnie Financière**

How the Rothschilds took their revenge

Bernard Esambert: dreaming of golden shares

THE RAMIFICATIONS of the Rothschild family have always provided ample material for the genealogist. For the French branch of the family, however, history and heredity have both taken a hand.

In the 1970s, the picture remained clear: Banque Rothschild, headed by Baron Guy de Rothschild and his son David, was the very symbol of the French banking establishment. Compagnie Financière, headed by Baron Edmond de Rothschild – 17 years younger than his second cousin Guy – represented very much the cadet branch of the family.

The arrival of a socialist government in 1981 brought the nationalisation of most large banks, and changed the picture. Banque Rothschild came into the hands of the state, renamed Européenne de Banque, and the change of ownership revealed the weakness of its balance sheet. Compagnie Financière, meanwhile, had too small a deposit base to come into the nationalisation net.

Since then, Baron David de Rothschild has recreated his family banking business: first as P.O. Banque – the government would not at first allow him to use the Rothschild name – and now as Rothschild et Compagnie Banque.

In one of its two activities, fund management, the new Rothschild bank has inherited customers from before the nationalisation, drawn by the family name. Its main business, however, is in the fast-developing French mergers and acquisitions market.

"Our objective is to be a significant player and recognised as such," Baron David says, noting that his bank last year ranked fourth in European cross-border transactions, advising on a total of $7bn of deals, including the giant Philip Morris-Suchard takeover.

The new bank has re-established links with N.M. Rothschild in London – both come under the umbrella of Rothschild Continuations and Rothschild Concordia, the Swiss holding companies which group the main Rothschild family operations.

"Fundamentally, there is a single Rothschild group with two heads, London and Paris," says Mr Edouard de Rothschild, David's half-brother.

Compagnie Financière Edmond de Rothschild, however, is independent from this structure. It is not controlled by the Rothschild holding companies, although in the other direction Edmond has a shareholding in Continuations as well as in Rothschild et Compagnie.

"Edmond is now probably richer than all his cousins put together, but David is the more aggressive investment banker – the one Rothschild with a revenge to take on history after the privatisation," comments one Paris financier.

And it is Compagnie Financière, under the chairmanship of Mr Bernard Esambert, which has stepped into the establishment role, with a range of activities in merchant banking, treasury services and fund management that brought in FFr71m of net profits in 1989, the last year for which accounts have so far been completed.

"We pursue parallel paths with points of convergence. It is really about two-thirds competition, one-third co-operation," Mr Esambert says.

Compagnie Financière is busily developing its M & A business, with substantial deals to its credit last year, notably the entry of the Pelège property group into the SAE construction company.

"In 1990 mergers and acquisitions provided around 25 per cent of our revenues, from nothing three or four years ago. This year I hope it will be a third," says Mr Esambert, who is confident that the flow of medium-sized deals will remain strong, even if most of the mega-mergers are now past.

Both Rothschild banks, however, along with their cousin N.M. Rothschild in London, have taken their real revenge for nationalisation by turning themselves into privatisation specialists.

All three together advised the French government on one of the first French privatisations, Paribas, and they have continued to pursue this speciality by advising governments in countries such as Turkey, Portugal and Morocco.

In France, privatisation as an admitted policy has now been frozen, but Compagnie Financière last year developed a promising line of business in evaluating companies for transfers of shares and capital-raising exercises within the state sector, to comply with the complicated government doctrine of "ni...ni...", neither privatisation nor nationalisation.

"Ni...ni... will not last, but at the moment it is a system designed to give bankers a premium for inventing sophisticated ways around its constraints," comments Mr Esambert, formerly industrial policy adviser to President Georges Pompidou.

"The system of my dreams would be for the state no longer to insist on majority ownership, but for it to take golden shares to avoid having our major companies pass into foreign hands."

George Graham

Stock markets: level playing fields

Continued from Page 3

bargains and price competitiveness – all of it to the benefit of their customers.

The outcome of this process of consolidation will depend in part on the extent to which Europe's deregulated stock markets remain level playing fields for all-comers, rather than becoming the slaves of a handful of bank-owned brokers. This second possibility is one which many market participants regard as a serious threat.

If it becomes standard practice for banks to feed business from their fund management arms through their brokerage operations – an obvious defensive strategy when market conditions are tough – then outsiders are left with little chance of joining the game. The broking business in France and the UK may not have gone this way, but brokers in those countries note with awe the entrenched position that German banks have built themselves in their own domestic market through a total dominance of both retail and institutional fund management.

Discussions in Brussels on a planned Investment Services Directive will have some effect on the outcome, determining the extent to which investment business has to pass through regulated markets. Equally important will be the fine print of local stock market dealing rules, and the balance they strike between maintaining a level playing field for all market participants and making it possible for brokers to earn a living. A two-year row in London over dealing rules has made clear just how difficult this balance is to strike.

Meanwhile, what room is there for outsiders who are trying to break into local markets? Will it be possible to establish true Europe-wide broking operations to service investors in, say, Tokyo or New York?

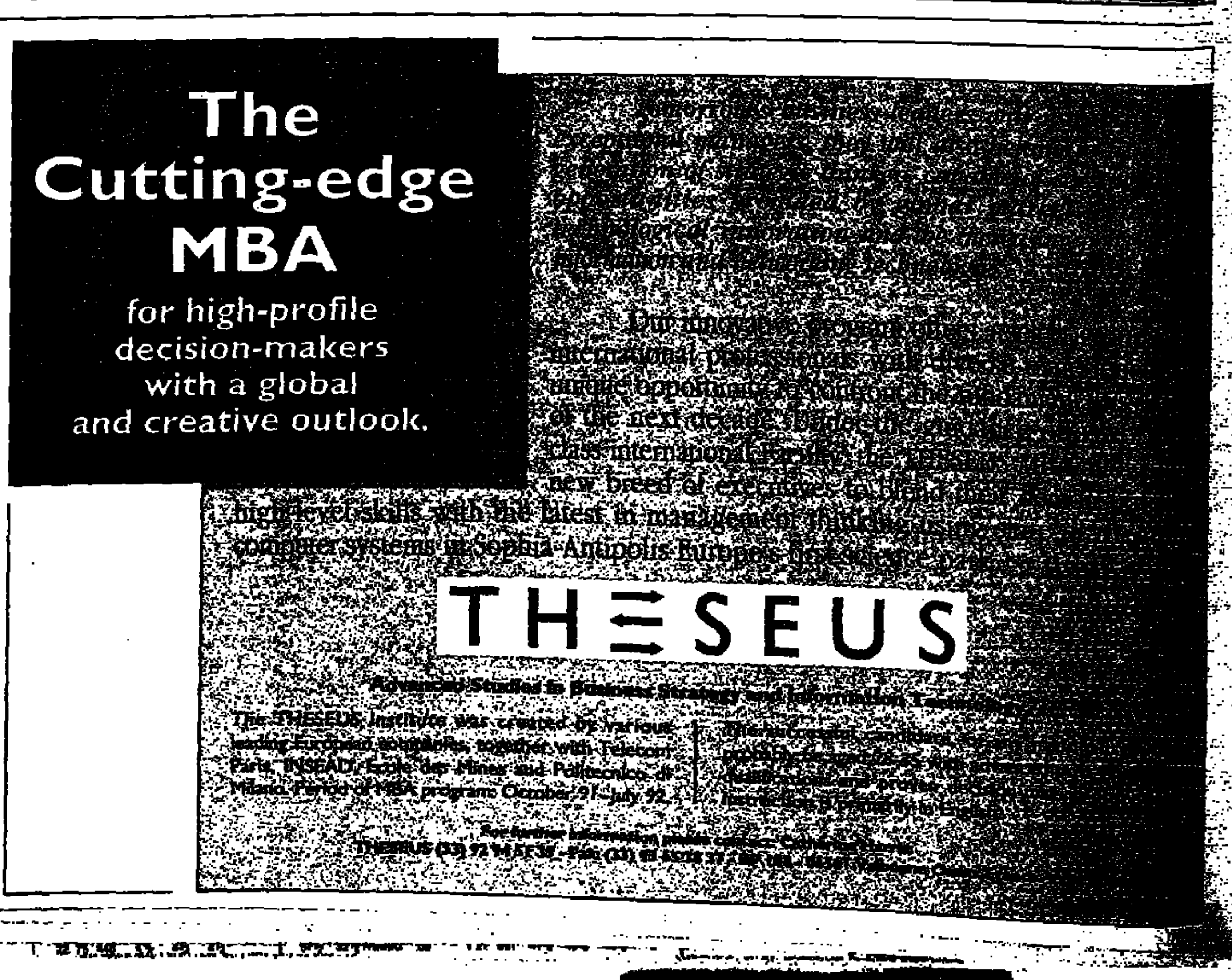
To an extent, London's SEAQ International share price quotation system, which supports a telephone dealing market in foreign equities, has already created a way for outsiders to participate in each national stock market. Take an order for French shares which originates in New York and is carried out in London: the chances are that the deal will eventually be unwound in the French market, which remains the centre for liquidity in French stocks. This process makes it possible for London-based broker/dealers in effect to trade off the liquidity of local markets without needing to establish a strong local presence themselves.

Thus, the development of international wholesale markets means there are many more ways for securities houses to carry out their business than through a series of strong domestic market operations.

Take UBS Phillips & Drew, the London-based broking operation owned by the leading Swiss bank. Its original plan, developed five years ago, was to target international investment institutions with pan-European equity research, and to execute the orders it received through a London-based block trading capability. That may have worked, but only up to a point: only a small group of internationally traded stocks can be handled in this way.

The next phase of UBS P&D's plan is to build a direct presence in local markets to tap the knowledge and liquidity needed to trade the many big companies which do not quite make it onto the international stage. This week it became the first broker to set up from scratch on the Paris bourse through the takeover of a shell company. Times may be tough, but it seems there is no stopping the proliferation of Europe's stockbrokers.

Richard Waters



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COMMODITIES AND AGRICULTURE

Gatt report shows fall in EC beef and veal exports

By William Dullforce in Geneva

BEEF EXPORTS by the European Community declined by 284,000 tonnes last year, partly as a result of the loss of the Iraqi and Kuwaiti markets and the impact on foreign demand of the outbreak of "mad cow disease" in the UK.

Coupled with a 4 per cent expansion in EC production of beef and veal and a 4 per cent fall in internal consumption, the slide in exports resulted in a tripling of community beef stocks to some 600,000 tonnes by the end of the year.

EC developments and the instability on the community market figure prominently in the latest annual report on world meat markets from the secretariat of the General Agreement on Tariffs and Trade. The report covers 27 trading blocs and countries accounting for about 90 per cent of world beef and veal exports.

Their total bovine meat output increased by 1 per cent to 31.4m tonnes last year, with the EC being responsible for most of the rise in production, according to Gatt estimates. Drought stimulated higher slaughter rates in Australia but beef output dropped in the US, Canada, New Zealand and Argentina.

As consumption of beef and veal continued its long-term decline, exports fell by 120,000 tonnes to 3.9m tonnes in 1990.

Australia, the US and Argentina were able to expand their shipments – by as much as 25 per cent in Argentina's case – but these increases were offset by the plunge in EC exports alone.

Brazil, affected by the radical economic reforms introduced by the new government and US restrictions on imports of canned meat, experienced a 30 per cent drop in its beef exports.

Beef prices remained "attractive", the Gatt secretariat states, but they levelled off during the year and are expected to weaken further in 1991.

The Gulf crisis and developments in eastern Europe and the Soviet Union will continue to have a major impact on the meat industry, Gatt predicts. Although the situation for beef is "far from being critical", it should temper the optimism displayed only a few months ago.

Total beef and veal output, boosted by lower feed costs, is forecast to rise again in 1991, while the downward trend in per capita consumption could even accelerate.

EC beef production is expected to continue its upward trend, mainly reflecting increased weight of cattle rather than a higher slaughter rate. The unification of Germany has added 5m head of cattle to the EC herd.

Gatt foresees EC beef exports rising by a third to approach their 1991 record level of 1m tonnes. Declines are expected in shipments by Uruguay and Argentina, although Brazil could return to the export scene in a big way.

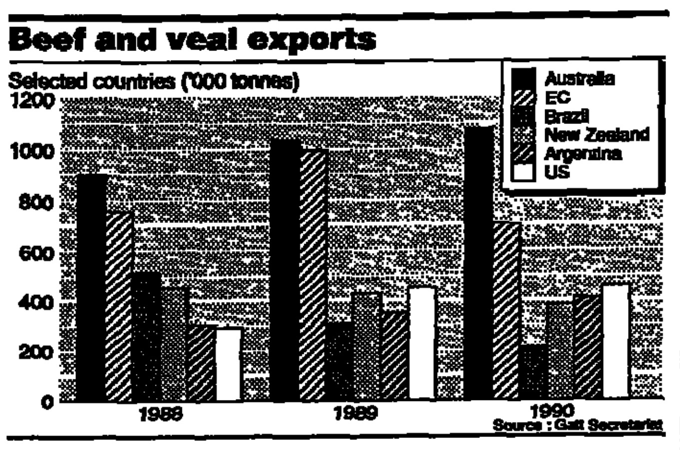
In eastern Europe beef producers have begun to switch their export hopes from traditional markets, such as the Soviet Union, to hard currency clients. Despite uneven output performance – up in Yugoslavia and Bulgaria, down in Hungary and Poland – the region has managed to increase shipments of live cattle and meat to Western Europe, particularly to the EC.

Soviet imports, nevertheless, rose by 66 per cent to some 250,000 tonnes last year.

Gatt's annual report also records a drop by 2.2 per cent to some 1.4m tonnes in pigmeat exports last year and a 4 per cent increase in world poultry meat production to around 35.7m tonnes.

The US is expected to overtake the EC as the leading exporter of poultry meat this year.

International Markets for Meat 1990/91. SFr25; from the Gatt Secretariat, 154 rue de Lausanne, CH-1211 Geneva 21.



World sugar supply surplus forecast

By David Blackwell

THE WORLD sugar supply and demand balance is set to move into surplus in the 1990-91 marketing year after several years of deficit, according to Czarnikow, the London trading house.

Even allowing for a statistical disappearance factor of 650,000 tonnes, the surplus is likely to reach 1.2m tonnes, Czarnikow says in its February Sugar Review.

The review puts production at 111.39m tonnes, raw value, compared with a forecast of 110.7m tonnes made last November. Consumption is now estimated at 109.5m tonnes, compared with November's prediction of 110.43m tonnes.

Virtually all the increase in production is accounted for by continuing improvements in the beet sector, now put at 40.62m tonnes, compared with November's estimate of 39.96m tonnes.

On the consumption side, the main change has been the outbreak of the Gulf war, which has effectively cut off demand from the Middle East. However, "when the time comes for peace and reconstruction, there will be a need to restock supply lines as well as to meet a resurgence of demand to former levels," says the Czarnikow report.

"It is unlikely that shortage of funds will inhibit such a process, indeed quite the reverse."

In addition, the world recession will diminish disposable per capita incomes, which in less developed countries are closely related to movements in per capita sugar consumption.

Wool trade faces price 'pain'

By David Blackwell

CONSUMERS' STOCKS of wool have been kept to a minimum because of uncertainty in the wool industry over the past few weeks. Nevertheless, this week's decision by both the Australian and New Zealand wool boards to end their price support schemes is likely to prove expensive for the wool trade.

"There will be a painful short-term adjustment for some people holding wool," said Mr Graham Lister of the International Wool Secretariat yesterday. "But to be fair I don't think there's much in the pipeline at the moment."

Australia, the world's biggest producer, will not resume its auctions until February 25. Many observers expect the price to settle at about 550 cents a kilogram, or half the previous support price.

Mr Richard Inman, chairman of the British Wool Federation, has protested about the Australian moves to Mr John Kerin, the country's Primary Industries Minister. "In our opinion he has acted completely irresponsibly," said Mr Inman yesterday.

He called for the Australian Wool Board's 4.8bn bale stockpile, which represents about 70 per cent of the merino clip, to be frozen. He also attacked the Australian government's decision to supplement growers' returns up to 700 cents a kilogram until the end of June. "Farmers will continue to sell as the government is going to make up the difference."

However, in the long term the abandonment of price support was the right move for wool, he said.

Consumer prices are not likely to fall for some time because of the long lead times in the textile industry, Mr Lister said, pointing out that in any case the raw material was a relatively small part of the price of an item like a man's suit.

However, the lower prices would make wool much more competitive against synthetic and other fibres.

But the market needed the return of two of its biggest customers historically – China and the Soviet Union. Purchases by China fell from 61m kg in 1987-88 to 17m kg in 1989-90 and about half that figure in the current year so far. The Soviet Union had bought virtually nothing this year, compared with 58m kg in 1987-88.

Both these countries would come back to the market in the long term, according to Mr Michael Godfrey of the Commonwealth Secretariat, which supplies statistics to the International Wool Study Group and the International Wool Textiles Organisation. "Their difficulties are temporary," he said yesterday.

However, it would take a long time for confidence to return to the market.

Uzbeks pick fight with Moscow over cotton sales

Jo Carley on a planned challenge to central marketing of the republic's main crop

TOLIB MUHAMADOV, chief accountant of an Uzbek collective farm, flourished his ledgers melodramatically and said: "Moscow has been stealing our cotton too long. Now we are going to take control of it!" His words sum up the attitude of many in the central Asian republic. For controversy over who should be controlling the region's rich cotton supply is fast becoming the focus for the republic's challenge to the Soviet central government.

Last June the Uzbek parliament announced that it planned to withhold 30 per cent of the republic's 5m-tonne cotton crop instead of selling it to the state. The idea was that it would be used for export or direct trade between republics, which Uzbekistan believes would be more profitable.

However, there are now widespread reports that the proportion that it is threatening to withhold has now risen to 60 per cent. If this threat is translated into action then it will almost certainly meet bitter opposition from Moscow, not least because Uzbekistan produces over two-thirds of Soviet cotton.

Pinpointing the details of this threat is difficult. Since so many of the struggles between Moscow and the republics are being carried out behind the closed doors of the ministries, economists in Uzbekistan's own agricultural ministry disagree among themselves over what exactly could or should be or is happening.

"On the telephone to Moscow they are threatening to withhold 58 per cent," commented a Moscow economist who has been closely following the debate. "But nothing has been published because it's so confused."

There is no confusion, however, about the Uzbeks motives. For years they have believed that Moscow was exploiting them over their cotton.

'Moscow has been stealing our cotton too long. Now we are going to take control of it!'

● Firstly, there were the ecological issues: over-use of water resources and fertilisers in the centrally imposed cotton monoculture had poisoned large areas of land and lead to the disastrous shrinking of the Aral Sea.

● Secondly there has been great resentment at Moscow's control over cotton production. It is believed that the region has been deliberately kept as a supplier of raw materials without being allowed to develop its own textile industry – more than 85 per cent of the republic's cotton is currently spun and woven in other republics.

● Thirdly, and most significantly, there is anger over the price the state pays for cotton. "It's ludicrously low compared to the world market prices" says Mr Tairo Tairov, an Uzbeck Professor of International Relations and leading Uzbeck intellectual.

Most Uzbek economists believe strongly that if they were free to arrange direct trade deals with other republics or sell cotton on the world market, then the republic would be considerably better off.

Up to now, Soviet exports of cotton – about 750,000 tonnes a year – have been largely controlled by Moscow and the hard currency received has remained in the hands of the central government. Uzbek economists stress that Uzbekistan desperately needs this hard currency to modernise and expand its own textile industry, and this, in particular, has fuelled its challenge to Moscow.

Whether or not Uzbekistan would really be better placed if it controlled its cotton is a moot point, however.

During the last few years the state price of cotton has already been rising. In 1986 collective farms were receiving an average of R550 per tonne of raw cotton. Last year this had risen to an average of R850. And this year, as part of a general increase in wholesale prices, the price should be rising to R1,600 on average, and as high as R2,000 for the fine-fibred cotton that accounts for about 12 per cent of the crop.

But simply jacking up the prices does not necessarily provide a solution, however popular it may be with Uzbek nationalists. The problem is that it is very difficult to establish any form of price reality under the old economic system.

Although Uzbekistan was selling its cotton cheaply, it was also buying its vital oil, meat and dairy imports at prices considerably lower than world levels. And, in the view of the central government, the low price of cotton was being compensated for, since a proportion of the money from the sales of finished cotton products was being returned to Uzbekistan as budget subsidies.

The danger is, then, that if Uzbekistan tries to demand higher cotton prices, either from the state or from other republics in direct trade agreements, these may simply follow suit with their own products, leading to a price war.

Alternatively, if Uzbekistan withholds a proportion of its cotton for attempted export – always assuming that it could actually find an overseas market for it – then a republic like Russia, which depends on raw cotton supplies for its textile industry, may simply reduce its oil supplies to Uzbekistan.

So what impact is this likely to have on cotton production itself? For Uzbekistan's limited textile industry it implies, predictably, more confusion. "We have no idea what is supposed to happen," commented Mr Zuhra Balabaeva, manager of a textile factory near Tashkent. "When the cotton price doubles I suppose the price of our shirts will have to double. But I still don't know if we will be allowed to do that."

For the cotton farmers, though, the price rises appear good news, at least on paper. For many years they had been dragging their feet over cotton production. They have tended to plant just enough to make a show of fulfilling state quotas, and have used the rest of the land for fruit and vegetables.

The logic behind this is that cotton has to be sold to the state for state prices, since the farms cannot process it themselves. However, fruit and vegetables can be loaded on to a lorry and sold at the local market for black market prices, with less state surveillance. Furthermore, they can be used to arrange barters with industrial enterprises for spare parts.

Raising the price of cotton has changed the sums. At the Pravda collective farm near Tashkent, for example, cotton has been yielding R3,600 roubles a hectare annually during the last 3 years. Next year the collective hopes to raise this to R7,000. The comparable figures for food (using both state and market channels) are: R1,500 for rice; R1,250 for potatoes; and R2,000 for fruit. Even though they probably sell more food privately than they admit, cotton is still more profitable.

Furthermore, farmers are now aware that with the increasing breakdown of the transport system, cotton, at least, has the merit of not spoiling even if left in the farm's warehouse for several weeks.

The net result of this is that there is little incentive for Uzbekistan's farmers to depart significantly from the cotton monoculture at present, in spite of the Uzbek government's recent announcement that it hopes to cut the area under cotton cultivation from 65 per cent to 61 per cent of the arable land this year. And this has ominous implications not just for the region's food supply, but also its ecology.

Indeed, contrary to the hopes of Uzbek nationalists, moving towards the market and greater independence seems unlikely to provide an easy cure either for the republic's ecological woes or its economic ones.

BP's Nigerian comeback

By William Keeling in Lagos

BP, THE UK oil-producer, is planning to re-enter Nigeria more than ten years after its interests were nationalised. *The company has bid for a* deep offshore exploration plot, a move seen as a vote of confidence in Nigeria as a leading producer of crude oil.

Until 1979, BP had a 20 per cent stake in the largest joint-venture, *which currently produces* about half of Nigeria's 1.95m barrels a day. The stake was nationalised by the government because of allegations that BP oil was being indirectly shipped to South Africa and as a form of pressure on Britain to end Rhodesia's, now Zimbabwe, unilateral declaration of independence.

Confirming BP's bid Mr Jubril Aminu, Nigeria's petroleum minister, described the company as an "old friend". But BP is unlikely to ask for, or get, compensation for the lost shareholding.

In 1988, an equivalent 20 per cent stake in the joint-venture was sold by the state-owned Nigerian National Petroleum Corporation to Shell, Elf and Agip for $2bn.

The government is using the deep offshore plots, the first to be offered in Nigeria, to attract new companies into the oil-sector. Mr Aminu confirmed that Exxon has expressed an interest and that "they have been allowed to submit (a bid) any time they are ready". Unioil and Conoco, both of the US, are also believed to be preparing bids.

Nigeria is responsible for about 8 per cent of Opec production.

CDC loan for Guyanese bauxite company

By Kenneth Gooding, Mining Correspondent

THE COMMONWEALTH *Development Corporation, the* London-based organisation that invests government cash in developing countries, is making its first loan to Guyana for 14 years. It is providing an US$8m long-term, low-interest loan to a bauxite mining company in that country.

Aroaima Bauxite, jointly owned by the Guyanese government and Reynolds Metals, the second-largest US aluminium group, started production at the end of 1990. Aroaima expects to produce 2.6m tonnes of bauxite annually when at full capacity. The $25m venture *is exploiting deposits contain*ing between 30m and 35m tonnes of bauxite.

WORLD COMMODITIES PRICES

MARKET REPORT

Robusta coffee prices rose sharply in London, sparked by an early rise of more than 4 cents a lb in the New York arabica market following the latest US Department of Agriculture estimate of 25m bags for the 1991-92 Brazilian coffee crop, a 19 per cent decline on last year. "Now that we've touched £500 twice in London near March, some people think that we could be in for a small rally. However I can't see us rising £10 to £20 above these levels without running into some origin-selling," one trader said. New York traders and analysts said the USDA report on Brazil is traditionally inflated. If they say 25m we'll probably see 20m bags, said one trader – "the *estimate has spooked some* specs." The rally looked constructive, and he expected to see continued upward movement. New York sugar was sliding by midday, resuming the recent downtrend on continued lack of physical buying. On the LME three-month nickel fell back below the $8,700 a tonne chart level. Dealers said the market's recent *move above $8,700 was primarily* motivated by technical and speculative buying. Further chart resistance was evident around $8,800, while higher levels also attracted profit-taking, they said.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	$14.85-5.20t	+0.10
Brent Blend (dated)	$20.85-1.10	-0.10
Brent Blend (April)	$19.40-9.45	
W.T.I. (1 pm est)	$21.00-1.05t	+0.30
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$242-248	
Gas Oil	$282-287	-21
Heavy Fuel Oil	$75-77	-5
Naphtha	$229-233	-3
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$367.55	-0.70
Silver (per troy oz)♣	372.00c	+6.0
Platinum (per troy oz)	$385.75	+5.00
Palladium (per troy oz)	$87.00	+1.00
Aluminium (free market)	$1510	-5
Copper (US Producer)	115c	+½
Lead (US Producer)	34c	
Nickel (free market)	406c	-6
Tin (Kuala Lumpur market)	14.69r	-0.01
Tin (New York)	257c	
Zinc (US Prime Western)	62c	
Cattle (live weight)†	110.69p	+3.41*
Sheep (dead weight)†	161.66p	+17.5*
Pigs (live weight)†	88.47p	+5.95*
London daily sugar (raw)	$209.0w	
London daily sugar (white)	$268.5w	+1.00
Tate and Lyle export price	£211.5	
Barley (English feed)	Unq.	
Maize (US No. 3 yellow)	£169.0	
Wheat (US Dark Northern)	£94.60	
Rubber (Mar)♥	48.00p	
Rubber (Apr)♥	48.50p	
Rubber (KL RSS No 1 Mar)	229.0m	
Coconut oil (Philippines)§	$330q	+5
Palm Oil (Malaysian)§	$317.5	+2.5
Copra (Philippines)§	$220t	
Soyabeans (US)	£135.0	+0.5
Cotton "A" Index	86.20c	
Wooltops (64s Super)	401p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Mar/Apr. t-Apr. w-Feb/Mar z-Jan/Feb. x-Mar. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX			($ per tonne)	
Raw	Close	Previous	High/Low	
Mar	183.20	183.80	184.40	180.60
May	187.00	186.00	186.00	183.00
Aug	192.20	192.40	192.00	190.00
Oct	191.60	192.00	191.60	189.00
Mar	191.60	191.00	190.00	
May	193.80		191.80	191.60
White	Close	Previous	High/Low	
Mar	288.1	292.8	289.0	286.1
May	285.1	284.8	285.5	281.0
Aug	288.6	287.8	289.0	283.5
Oct	286.1	282.8	284.5	259.5

Turnover: Raw 2044 (1681) lots of 50 tonnes. White 1978 (2220)

Paris- White (FFr per tonne): Mar 1426, May 1411, Aug 1434, Oct 1316.

CRUDE OIL – IPE			$/barrel	
	Latest	Previous	High/Low	
Mar	20.20	20.60	20.40	20.10
Apr	19.33	19.55	19.48	19.10
May	18.58	18.70	18.75	18.40
Jun	17.95	18.10	18.10	17.95
Jul	17.78		17.76	17.70
Aug	17.60		17.60	
IPE Index	20.63	20.40		

Turnover 18095 (28223)

GAS OIL – IPE			$/tonne	
	Latest	Previous	High/Low	
Mar	222.25	228.50	232.00	217.00
Apr	186.00	188.50	189.00	184.50
May	174.50	174.50	176.50	170.00
Jun	170.00	171.50	171.50	165.00
Jul	169.00	169.25	171.00	163.00
Aug	170.00	170.00	170.00	

Turnover 16790 (13420) lots of 100 tonnes

WOOL

The Australian Government announced on February 11 that its floor price scheme was being abandoned. Wool sales are not being resumed there until February 25. The trade is worried about stock losses as well as uncertainty about contracts in place. Prices will certainly fall but no-one knows by how much. Apart from these very worrying features the trade is concerned about stockpile disposal policy. Growers meanwhile are to have auction prices made up to the 700 cent basis for the next four months, encouraging excess supply in that time. *Bradford top prices are tentatively* down by 15 to 25 pence per kg.

COCOA – London FOX			£/tonne	
	Close	Previous	High/Low	
Mar	600	601	605	595
May	639	636	642	633
Jul	668	664	670	664
Sep	695	691	696	690
Dec	729	726	730	726
Mar	753	751	757	751
May	772	769	770	

Turnover: 3189 (6583) lots of 10 tonnes

ICCO indicator prices (SDRs per tonne). Daily price for Feb 12 822.33 (815.75) 10 day average for Feb 13 828.78 (831.94)

COFFEE – London FOX			£/tonne	
	Close	Previous	High/Low	
Mar	527	511	532	509
May	541	525	547	521
Jul	557	536	563	536
Sep	573	552	575	559
Nov	589	568	590	572
Jan	606	586	588	

Turnover: 7038 (4853) lots of 5 tonnes

ICO indicator prices (US cents per pound) for Feb 12: Comp. daily 69.18 (69.64). 15 day average 67.95 (67.96)

POTATOES – London FOX			£/tonne	
	Close	Previous	High/Low	
Apr	129.0	131.0	130.0	126.2
May	150.0	151.5	150.0	148.5

Turnover 125 (209) lots of 40 tonnes.

SOYAMEAL – London FOX			£/tonne	
	Close	Previous	High/Low	
Apr	110.00	109.00	110.00	
Jun	109.00	108.50	109.00	
Aug	111.50	110.50	111.50	111.00

Turnover 65 (135)lots of 20 tonnes.

FREIGHT – London FOX			$10/index point	
	Close	Previous	High/Low	
Feb	1600	1574	1595	1585
Mar	1548	1539	1551	1542
Apr	1431	1420	1435	1425
Jul	1109	1100	1115	1109
Oct	1197	1200	1205	1200
BFI	1576	1561	1578	

Turnover 261 (248)

GRAINS – London FOX			£/tonne	
Wheat	Close	Previous	High/Low	
Mar	124.00	123.70	124.20	123.95
May	127.65	127.25	127.85	127.45
Jun	129.65	129.35	129.80	129.65
Nov	110.50		110.55	110.50
Jan	114.05		114.05	
Barley	Close	Previous	High/Low	
Sep	103.60	103.65		
Jan	110.50		110.50	

Turnover: Wheat 478 (290), Barley 5 (86). Turnover lots of 100 tonnes.

PIGS – London FOX			(Cash Settlement) p/kg	
	Close	Previous	High/Low	
Mar	107.8	107.5	107.5	107.0
Apr	107.8	107.5	108.0	107.5
May	107.8		108.0	
Jul	106.8	105.5	106.5	
Aug	106.8		106.5	105.5
Sep	106.3		105.5	105.0

Turnover: 82 (38) lots of 3,250 kg

MGMI – London FOX				
	Close	Prev.	High	Low	Vol
Indx	155.26	155.24			
Jun	158.50		158.50		100

LONDON METAL EXCHANGE				(Prices supplied by Amalgamated Metal Trading)		
	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 14,934 lots
Cash	1508-10	1519-21		1505-6		
3 months	1540-1	1551-2	1548/1537	1537-8	1538-40	51,667 lots
Copper, Grade A (£ per tonne)						Total daily turnover 20,507 lots
Cash	1218-20	1231-3	1225/1218	1219.5-20.5		
3 months	1218-9	1229-30	1225/1218	1217.5-8.5	1224-5	108,879 lots
Lead (£ per tonne)						Total daily turnover 2,044 lots
Cash	300-1	297-7.5	296	296-7		
3 months	313-4	308-9	313/305	309-10	311-2	13,623 lots
Nickel ($ per tonne)						Total daily turnover 1,644 lots
Cash	8725-50	8850-900		8725-50		
3 months	8675-90	8775-800	8725/8680	8700-4	8680-5	8,143 lots
Tin ($ per tonne)						*Total daily turnover 1,332 lots*
Cash	5540-50	5525-35	5625/5620	5520-5		
3 months	5635-40	5625-30	5640/5615	5615-20	5640-50	6,850 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 8,936 lots
Cash	1197-202	1190-2		1195-6		
3 months	1185-7	1188-9	1192/1178	1189-90	1186-8	17,683 lots

LME Closing £/$ rate: SPOT: 1.9950 | 3 months: 1.9637 | 6 months: 1.9363 | 9 months: 1.9151

LONDON BULLION MARKET (Prices supplied by N.M.Rothschild)			
Gold (fine oz)	**$ price**	**£ equivalent**	
Close	367.30-367.80		
Opening	365.60-366.00		
Morning fix	367.05	184.373	
Afternoon fix	366.75	184.047	
Day's high	367.80-368.20		
Day's low	365.50-366.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	5.21	6 months	5.11
2 months	5.20	12 months	5.08
3 months	5.18		

Silver fix	p/fine oz	US cts equiv
Spot	186.85	372.00
3 months	192.85	377.90
6 months	198.55	383.95
12 months	209.35	396.70

GOLD COINS (Prices supplied by Engelhard Metals)		
	$ price	£ equivalent
Krugerrand	*367.50-368.50*	*184.50-185.00*
Maple leaf	378.00-379.00	189.75-190.25
New Sovereign	89.25-90.25	45.00-45.50

TRADED OPTIONS				
Coffee	Mar	May	Mar	May
500	26	49		8
550		20	24	29
600		7	74	66
Cocoa	Mar	May	Mar	May
550	50	93		5
600	8	58	8	18
650		29	50	41

Brent Crude	Apr	May	Apr	May
2000			105	
2050				
2100	750			

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Feb	367.2	368.0	368.1	368.1
Mar	367.7	368.5	0	0
Apr	369.5	370.3	370.8	368.8
Jun	372.6	373.5	373.7	372.2
Aug	375.7	376.6	0	0
Oct	378.9	379.8	379.2	379.1
Dec	382.1	383.1	383.4	382.2
Feb	385.5	386.6	0	0
Apr	388.8	390.0	0	0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Apr	381.3	379.1	383.5	380.6
Jul	385.0	382.8	387.0	384.0
Oct	388.8	386.3	390.5	390.0
Jan	393.1	390.6	0	0
Apr	398.3	395.8	0	0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Feb	374.3	370.4	372.0	370.0
Mar	375.3	371.5	376.0	371.5
Apr	377.4	373.6	0	0
May	380.2	376.3	381.0	376.0
Jul	384.9	380.9	385.0	382.0
Sep	389.8	385.7	390.0	386.5
Dec	396.9	392.7	397.0	392.5
Jan	398.3	394.1	0	0
Mar	404.3	400.0	404.5	400.0
May	409.7	405.2	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Feb	111.90	111.00	112.20	110.25
Mar	110.85	110.00	111.20	109.20
Apr	109.30	108.40	109.30	109.00
May	107.85	107.00	108.00	106.40
Jun	107.25	106.30	107.40	106.50
Jul	106.40	105.30	106.60	104.75
Aug	105.65	104.65	0	0
Sep	104.90	103.90	104.60	104.30
Oct	104.35	103.25	0	0
Nov	103.85	102.75	0	0

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Mar	122.15	118.45	123.00	118.70
May	122.70	118.55	123.00	118.50
Jul	122.00	118.50	122.75	118.75
Sep	122.00	118.50	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Mar	22.84	22.93	22.95	22.22
Apr	20.95	21.14	21.14	20.62
May	19.90	20.18	20.07	19.70
Jun	19.15	19.51	19.36	18.95
Jul	18.80	19.04	18.86	18.60
Aug	18.55	18.79	18.60	18.30
Sep	18.50	18.68	18.50	18.20
Oct	18.30	18.60	18.55	18.25
Nov	18.43	18.58	18.43	18.15
Dec	18.35	18.58	18.50	18.25

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Mar	6610	7080	6925	6730
Apr	6020	6098	6090	5920
May	5600	5610	5620	5470
Jun	5310	5300	5340	5205
Jul	5210	5175	5220	5105
Aug	5245	5195	5260	5150
Sep	5310	5300	5360	5310
Oct	5460	15390	5450	5400
Nov	5560	5480	5580	5560
Dec	5610	5570	5656	5520

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Mar	1140	1130	1150	1136
May	1168	1158	1179	1163
Jul	1198	1192	1210	1195
Sep	1234	1225	1241	1225
Dec	1286	1273	1293	1283
Mar	1328	1316	1325	1325
May	1360	1348	0	0
Jul	1390	1378	0	0

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Mar	91.20	87.20	91.70	88.50
May	93.60	89.70	93.75	93.10
Jul	95.85	92.00	95.90	94.10
Sep	98.00	94.15	98.10	98.00
Dec	100.95	97.00	101.00	99.50
Mar	103.00	99.50	0	0
May	105.00	101.90	105.00	105.00
Jul	106.75	104.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Mar	8.28	8.29	8.29	8.16
May	8.30	8.34	8.30	8.19
Jul	8.30	8.34	8.33	8.22
Oct	8.32	8.40	8.34	8.25
Mar	8.48	8.55	8.48	8.40
May	8.52	8.58	0	0
Jul	8.64	8.70	0	0

COTTON 50,000; cents/lbs				
	Latest	Previous	High/Low	
Mar	83.45	83.64	84.20	83.25
May	82.40	82.35	82.80	81.90
Jul	81.35	81.33	81.70	80.90
Oct	70.30	70.40	70.50	70.04
Dec	66.90	66.95	66.95	66.65
Mar	67.35	67.25	67.55	67.25
May	67.85	67.55	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)			
Feb 13	Feb 12	mnth ago	yr ago
1666.4	1667.0	1660.7	1794.0

DOW JONES (Base: Dec. 31 1974 = 100)				
	Feb 12	Feb 11	mnth ago	yr ago
Spot	122.13	121.97	122.49	128.86
Futures	127.31	127.30	125.74	131.81

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Mar	573/6	570/2	577/2	568/6
May	587/6	583/2	591/0	582/4
Jul	601/4	596/4	604/0	596/0
Aug	606/6	601/6	610/0	601/4
Sep	609/0	604/6	611/4	604/4
Nov	618/0	612/2	621/2	613/0
Jan	628/4	623/4	632/0	624/4

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Mar	21.14	21.12	21.28	21.06
May	21.51	21.47	21.65	21.42
Jul	21.81	21.74	21.93	21.71
Aug	21.90	21.77	22.00	21.78
Sep	22.03	21.75	22.10	21.83
Oct	22.06	21.85	22.12	21.85
Dec	22.24	21.86	22.30	21.95
Jan	22.32	21.95	0	0

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Mar	168.4	166.1	168.9	164.7
May	172.2	170.2	172.9	168.7
Jul	176.1	174.4	176.7	172.8
Aug	177.5	177.0	178.6	174.8
Sep	178.8	178.3	180.2	177.0
Oct	179.5	179.7	180.5	178.1
Dec	183.2	182.8	184.5	180.8
Jan	184.0	183.2	185.0	182.8

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Mar	239/2	238/0	239/6	237/6
May	247/6	246/6	248/2	246/4
Jul	254/0	252/6	254/6	252/4
Sep	255/2	253/6	255/6	253/6
Dec	257/2	255/4	257/6	255/0
Mar	264/4	262/4	264/6	262/2

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Mar	255/2	252/6	255/4	252/4
May	265/0	262/2	265/0	262/4
Jul	275/2	272/6	275/4	272/6
Sep	282/0	279/6	282/4	279/4
Dec	295/0	293/0	295/0	292/2
Mar	302/0	300/4	302/0	299/0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Feb	78.70	78.67	78.72	78.47
Apr	78.17	77.92	78.25	77.87
Jun	75.05	74.97	75.17	74.82
Aug	73.70	73.72	73.97	73.65
Oct	73.67	73.75	73.95	73.60
Dec	74.02	74.12	74.42	74.00
Feb	74.00	74.10	74.30	73.92

LIVE HOGS 30,000 lb; cents/lbs				
	Close	Previous	High/Low	
Feb	51.60	51.92	51.82	51.40
Apr	49.00	49.27	49.15	48.60
Jun	54.20	54.37	54.30	53.85
Jul	54.05	54.35	54.20	53.65
Aug	51.52	51.85	51.82	51.45
Oct	46.60	46.82	46.90	46.60
Dec	46.70	47.15	46.85	46.60

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Feb	64.27	64.95	65.25	63.95
Mar	63.27	64.17	64.25	62.80
May	63.10	64.40	64.50	62.60
Jul	61.65	62.87	63.05	61.65
Aug	59.85	60.60	61.10	59.85
Feb	58.58	59.25	58.92	[illegible]

LONDON STOCK EXCHANGE

Equities hope for further rate cuts

IF THE London stock market was caught out by yesterday's half-point cut in UK base rates, it was only by the timing, and its final judgment on the long-awaited reduction was somewhat cool. After reversing an early decline to show a turnround of nearly 30 FT-SE points following the Bank of England's signal for domestic lending rates to fall to 13¾ per cent, equities moved erratically and later gave back most of their gains after Wall Street opened lower.

By the close, the rise on the Footsie had been cut to only 3.3 for a final reading of 2,267.8. City views were divided between those who, perhaps inevitably, dismissed the base rate cut as "too little, too late", and the more optimistic analysts who predicted that yesterday's move is the forerunner to

Account Dealing Dates		
*First Dealings:		
Jan 28	Feb 11	Feb 25
Option Declarations:		
Feb 7	Feb 21	Mar 7
Last Dealings:		
Feb 8	Feb 22	Mar 8
Account Day:		
Feb 18	Mar 4	Mar 18

*New-time dealings may take place from 8.30 am two business days earlier.

a series of cuts which could bring base rates to below 12 per cent by the end of the year.

Equities peaked with a near 20-point gain on the Footsie soon after the Bank's signal on interest rates. Share prices were restrained out of concern for the effect on sterling and the gilt-edged market; however, by the end of the day, the pound was performing well against the D-Mark, and UK government bonds were also firm.

Among market economists, a number of whom had publicly called for base rate cuts in the UK press yesterday morning, response to the half-point cut was mixed. "Obviously good news; the only doubt is that it has come with sterling so near the bottom of the ERM band," said Mr Ian Harnett of Strauss Turnbull. "The government is taking a political risk which could prove a close call."

Trading volume, as measured by the Seaq system, remained brisk, with 518.9m shares traded compared with 592.2m in the previous session. A premium of around 30 points on the FT-SE futures contract sustained the underlying market, but arbitraging between the two remained difficult because of the shortage of shares, which continued to be a significant factor in the equity market.

Institutions, fearful of missing out on the market's advance, were buying the futures contract as a means of entry into equities, and may now, said some sources, be almost overweight in blue chip shares. This would indicate a significant shift in the portfolio stance of the big institutions which were still heavily weighted towards cash instruments at the turn of the year.

Equity business appeared to be two-way yesterday, a healthy sign described optimistically by one leading brokerage dealer as "almost back to the market of two or three years ago". Two-way trade is more profitable for securities firms than sudden changes of market trends. Some speculated that the latest market advance may have lifted the shadow of redundancies from several firms. Others, however, noted that customer interest in equities has remained relatively modest; daily retail totals have mostly remained below the £1bn mark.

After the close of trading yesterday, equity strategists began to assess the outlook for a market which backed away sharply from the 2,300 mark on Tuesday. Some analysts suggested that a correction down to 2,200 is possible.

"A period of consolidation might be appropriate," said Mr John Reynolds at County NatWest, which is nevertheless sticking with its forecast that the FT-SE will reach 2,550 by the year-end. Mr Reynolds believes there is only a slight possibility for a further half-point cut in UK interest rates before Budget Day.

FINANCIAL TIMES STOCK INDICES

	Feb 13	Feb 12	Feb 11	Feb 8	Feb 7	Year Ago	1990/91 High	1990/91 Low	Since Compilation High	Since Compilation Low
Government Secs	85.29	85.03	85.05	85.15	85.01	81.38	85.29 (13/2/91)	74.13 (30/4/90)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	93.26	93.16	93.61	93.60	93.53	91.24	93.61 (11/2/91)	83.60 (30/4/90)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1791.7	1781.1	1792.7	1760.2	1758.2	1822.4	1958.3 (3/1/90)	1610.4 (24/9/90)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	136.1	135.1	137.1	138.1	131.7	288.3	378.5 (6/2/90)	129.2 (6/2/91)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2267.8	2264.5	2279.0	2245.2	2243.7	2288.3	2463.7 (3/1/90)	1990.2 (28/9/90)	2463.7 (3/1/90)	986.9 (23/7/84)
FT-SE Eurotrack 100	1007.10	997.57	997.27	985.20	971.96	-	1007.10 (13/2/91)	900.45 (14/1/91)	1007.10 (13/2/91)	900.45 (14/1/91)
Ord. Div. Yield	5.35	5.38	5.35	5.45	5.46	4.73				
Earning Yld % (full)	11.15	11.20	11.15	11.35	11.37	11.43				
P/E Ratio (Net)(*)	10.94	10.79	10.85	10.66	10.63	10.59				
SEAQ Bargns 4.45pm	31,073	35,587	33,826	27,239	31,514	25,443				
Equity Turnover(£m)†	-	1090.71	844.62	735.91	1117.05	817.29				
Equity Bargains†	-	35,925	34,090	27,039	31,798	24,033				
Shares Traded (ml)†	-	498.0	408.8	342.2	490.2	369.5				

[illegible]

Ordinary Share Index, Hourly changes — Day's High 1803.4 — Day's Low 1774.3

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1775.3	1782.4	1801.8	1790.7	1787.2	1790.2	1790.3	1789.8	1792.6

FT-SE, Hourly changes — Day's High 2284.0 — Day's Low 2254.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2255.5	2263.1	2282.4	2271.3	2265.4	2269.5	2275.0	2277.8	2269.6

FT-SE Eurotrack 100, hourly changes — Day's High 1008.23 — Day's Low 998.88

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
998.88	1001.09	1003.08	1004.42	1005.79	1006.86	1006.00

GILT EDGED ACTIVITY

Indices	Feb 12	Feb 11
Gilt Edged Bargains	91.6	91.7
5-Day average	93.2	95.9

*SE Activity 1974. †Excluding intra-market business & Overseas turnover.

London report and latest Share index: Tel. 0898 123001.

Lonrho in the spotlight

THERE WAS good demand in busy trading for Lonrho and for several other stocks with precious metals interests. Shares in Lonrho were boosted by falling interest rates, which historically has stimulated demand for gold, and also by significant speculation that the group plans further links with Gencor, South Africa's second largest mining house. At 209p, the stock gained 9.

In December, Gencor denied reports in South Africa that it was considering a merger with Lonrho. Analysts yesterday suggested that a logical alternative might be an amalgamation of mining interests to create a separately quoted company on the International Stock Exchange. This would highlight Lonrho's asset value and appeal to UK investors who, since the takeover of Consolidated Gold Fields by Hanson in August 1989, have found it difficult to maintain a weighting in precious metals mining. Lonrho would not comment on the suggestions. In October 1989 Gencor and Lonrho merged two platinum mining operations in South Africa.

Interest in the sector was also stimulated by a buy recommendation for Johnson Matthey from County NatWest, and a recurrence of talk that the company might seek closer links with Charter Consolidated, which has a 38 per cent stake in Johnson Matthey. Charter rose 10 to 456p and Johnson Matthey ended 11 higher at 280p. Turnovers in both were higher than usual.

BT awaits figures

British Telecom was a nervous market ahead of today's third quarter figures. The stock edged up to 300p during initial dealings but subsequently came under persistent, albeit light, selling pressure. It ended a net 2 easier at 295p. Turnover was an unspectacular 4.7m shares.

The range of analysts' estimates of profits is £740m to £800m, with the most plumping for £760m, a rise of 9 per cent on last year's comparable figure of £695m.

The market expects few surprises from the results, which are forecast to reflect slower in revenue growth offset by improved efficiency. Analysts said the market was gearing up for the the conclusions of duopoly review expected next month. In the background there were worries about the *possibility of capping BT's* international services. What analysts were expecting, however, was a further comment from BT on the government's plans and Oftel's probable moves to increase competition and regulation.

Cool on Hanson

Enthusiasm for first quarter figures from Hanson, which in the event were near the top of the range of market forecasts, was tempered by the company's statement that "no one is recession-proof". The shares eased 1½ to 215p on solid turnover of 11m.

Analysts responded to the ambivalent tone by leaving their forecasts for the full year barely changed and simultaneously urging investors not to read too much into the 7 per cent rise in quarterly profits to £241m.

Mr Mike Murphy at S.G. Warburg said underlying pre-tax profits were down 10 per cent after taking into account last year's acquisitions of Peabody, in the coal business, and Cavenham, in forestry, and the effect of the conversion into equity in the spring of 1990 of convertible stock. He left his full year profits estimate unchanged at £1.3bn.

More cautious was Mr Nyren Scott-Malden at BZW, sticking with £1.275bn, while County NatWest WoodMac struck an optimistic note with its £1.35bn figure. County said that although the shares "might consolidate in the short term, they look good in the longer term". The broker expects acquisitions by Hanson later this year.

BP was unsettled by stories in the market that the Kuwait Investment Office would eventually sell its near 10 per cent stake, a legacy of its stake-building after the 1987 stock market crash.

The KIO is thought to be a comfortable holder of BP for the time being, but dealers said the prospect of a massive sale of BP shares – the holding is 540m shares – plus the chances of the UK government selling its remaining 2 per cent, would remain a drag on the BP share price.

BP reports fourth quarter numbers today. The shares have also been restrained by worries about the dividend payment, with one top broking firm forecasting an unchanged final of 3.95p. Most analysts are going for 4.15p, with optimists hoping for 4.25p and some even going as far as 4.35p.

Burmah outpaced the rest of the oil sector for the third consecutive trading session, touching 557p before running into a flurry of profit-taking to close a net 9 up at 552p. The thin turnover – only 634,000 shares changed hands – led specialists to believe that any buying of Burmah by 9.14 per cent shareholder SHV would have been on a small scale. It was also suggested that a short position had been filled in.

The E & P stocks, good performers recently, ran into profit-taking. Enterprise retreated 8 to 530p and Lasmo surrendered 12 to 363p. Dealers said that crude oil had lost ground again and that there seemed little scope for outperformance by the sector.

British Gas attracted the heaviest turnover in the energy sector with 16m shares changing hands. The share price was under pressure, closing 5 off at 241p after comment on the Ofgas annual report which indicated that Ofgas was seeking a review of its gas pricing formula.

Great Western Resources edged up 2 to 111p after the company said it had continued its buying-in programme with a recent purchase of a further *300,000 shares at 105p.*

The electricity stocks attracted a flurry of profit-taking, with dealers taking the view that cuts in domestic UK interest rates would trigger switching out of the safe, defensive areas of the market into higher yielding sectors. South Wales was the weakest, losing 5 to 190p, while the biggest turnover – 1.5m shares – was recorded in London Electricity, which settled 3 off at 178p. The Electricity Package fell £35 to £1190.

Water issues held up well, with Thames, boosted by recent switching, gaining 4 to 309p on 1.5m. The Water Package rallied £13 to £2383.

One pharmaceutical stock left behind in the sector's recent rally, Wellcome, rose sharply yesterday. Traders said there was speculative buying in anticipation of what might be revealed at a two-day conference on Aids in Maryland, in the US. Wellcome makes the world's only widely-approved Aids treatment, Retrovir, but Mr Martin Hall said the conference was concentrating on basic science and therefore there was only a slight link with the Wellcome price. The shares advanced 21 to 522p nevertheless, with some suggestions of a stock shortage.

Other drug shares paused for breath after having reached new highs in recent days. Glaxo edged 2 lower to 938p, having been 15 better at one point, SmithKline Beecham dipped 3 to 657p and Fisons 2 to 392p. Analysts pointed out that such cash-rich companies do not benefit from interest rate cuts.

A big review of the banking sector by Crédit Lyonnais Laing helped to drive Barclays 4 higher to 399p and Royal Bank of Scotland 2 better to 180p. NatWest, 4 off at 298p, was labelled a sell. On a medium to long-term basis Crédit Lyonnais Laing has upgraded the sector from underweight to neutral.

The recent flurry of bid talk in Kleinwort Benson finally ran out of steam and profit-taking depressed the shares by 13 to 330p.

Legal & General and Prudential underperformed the rest of the insurance sector after Kleinwort Benson published a bearish overview of the life sector.

Kleinwort described 1990 as a "terrible year for British companies, the worst for a decade for some, the worst since 1974-75 for many, and terminal for some", and said life companies "are not immune from these influences".

Kleinwort said that the life companies' assets were heavily weighted in equities and property *and that their sales were* geared to disposable incomes. The broker added *that the* spring is likely to be the time for a long-term strategic shift away from much of the life sector towards high-risk investments. Legal closed 10 weaker at 388p while Prudential dipped 5 to 214p.

Components manufacturers advanced, as did the software houses. Among the latter, Quotient climbed 8 to 53p. Unitech advanced strongly to close 12 higher at 211p, after 216p, with a number of the group's directors said to have been buying shares in the group.

News of GEC-Alsthom's £65m Malaysian deal helped sentiment in GEC, 5 up at 196½p, after 199p, on 13m shares.

BCC stood out in a buoyant building area of the market, advancing 18 to 399p after a buy recommendation from Mr Peter Jensen and Mr David Taylor at Flemings Research.

A strong rally in Carlton Communications came in the wake of an evening presentation by Cazenove to institutional shareholders, said traders. Carlton climbed 16 to 395p on good turnover of 2.7m.

Capital Radio, which lost ground last week after the departure of a senior executive to Carlton Communications, recovered on a recommendation from UBS Phillips & Drew. Ms Janet Robson at UBS said after meeting the company that advertising sales had not fallen since December. National advertisers, which had cut their television spending, were still buying radio air time, while March revenues might show a year-on-year increase. Capital added 5 at 143p.

There was good two-way trade in hotel stocks. Ladbroke and Trusthouse Forte each had 2.6m shares traded as the stocks rose 7 to 236p and 2 to 240p respectively. An unusually large 3.1m Queens Moat Houses shares changed hands, although the stock ended unchanged at 84p. Scottish buying interest helped Stakis add 2 at 47p amid speculation about what the new management might propose.

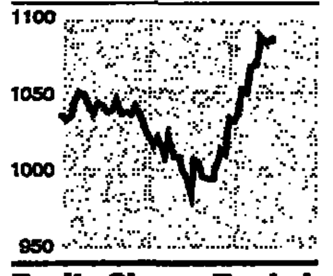
Argyll fell 6 to 271p in continuing reaction to Kleinwort Benson's change in recommendation to sell from hold. There was also speculation that the group might bid for Budgens, up 8 at 48p, or perhaps a US company. Budgens was further supported by talk that Kwik Save, unchanged at 522p, might also be interested.

Albert Fisher put on 3 to 115p as turnover rose to 3.7m on strong institutional buying after the shares had been depressed by a bear raid. The strength of sterling against the US dollar provided support for Fisher, and the bullish sentiment was able to overcome talk of a bid by the company.

Hillsdown gained 5 to 200p after Wickes, in which it has a 20 per cent shareholding, proposed a £42.6m rights issue.

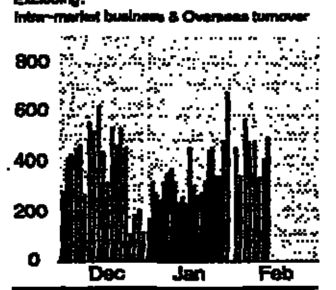
■ Other Market statistics, including the FT-Actuaries share index, Page 21

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: Intra-market business & Overseas turnover



NEW HIGHS AND LOWS FOR 1990/91

NEW HIGHS (91).
BRITISH FUNDS (51) INT.BANK & O'SEAS GOVT. STLG. ISSUES (3) BANKS (2) BREWERS (1) BUILDINGS (3) CHEMICALS (1) STORES (5) ELECTRICALS (1) FOODS (2) INDUSTRIALS (4) Diploma, Reckitt & Colman, Reliance Security, Serco, INSURANCE (2) PROPERTY (1) SHOES (1) TRUSTS (14).

NEW LOWS (35).
BANKS (1) BUILDINGS (3) ELECTRICALS (1) ENGINEERING (3) INDUSTRIALS (9) AIM, Boustead, Fobel Intl., Ibex, Metsec, Page (M.), Porter Chadburn, Westerly, Wilshaw, INSURANCE (1) LEISURE (2) PAPERS (4) PROPERTY (1) TRANSPORT (1) TRUSTS (4) OILS (2) MINES (3).

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change
[illegible]			
British Gas	16,000	241	-5
British Land	1,500	398	
BP	4,800	309	-5
British Steel	3,200	123½	+1½
British Telecom	4,700	295	-2
Bunzl	1,400	72½	+1
Burmah Castrol	634	552	+9
Burton	5,900	91	+1
Cable & Wire.	2,000	505	+8
Cadburys	1,800	347	+4
Calor Group	15	223	-3
Carlton Comms.	2,700	395	+16
Coats Viyella	1,800	115	+5
Comm. Union	642	503	+5
Cookson	439	113	-1
IMI	146	222	+3
ICI	1,100	980	+3
Inchcape	850	348	-1
Kingfisher	974	387	+3
Ladbroke	2,600	236	+7
Land Securities	1,000	553	+4
Laporte	882	539	+10
Legal & General	1,100	388	-10
Lloyds Abbey	1,400	371	+5
Lloyds Bank	2,300	324	-3
LASMO	671	363	-12
London Elect.	1,500	178	-3
Lonrho	5,100	209	+9
Lucas	536	143	+2
MB Caradon	208	187	+3
Racal	2,700	749	-20
Rolls Royce	10,000	145	-2
Rothmans	490	730	-8
Ryl Bk Scotland	1,300	180	+2
Royal Insurance	883	418	-2
Saatchi	943	24	+½
Sainsbury	2,800	336	-5
Scottish & New.	1,000	384	+5
Sears	8,400	87	+2
Sedgwick	453	234	-4
Seeboard	284	189	-3
Severn Trent Water	818	275	+1
Shell Transport	2,700	457	-3
Siebe	1,000	321	+5
Slough Ests	139	241	
Unilever	1,500	711	+2
United Biscuits	987	354	+2
Utd. Newspapers	402	320	+1
Water Package Uts.	4	12383	+15
Wellcome	1,000	522	+21
Welsh Water	378	325	+1
Wessex Water	198	329	-1
Whitbread 'A'	1,500	450	+2
Wiggins Teape	1,700	199	+3
Williams Hldgs.	2,600	280	+8
Willis Corroon	1,600	280	+1
Wimpey	530	182	+1
Yorkshire Elect.	187	189	-3
Yorkshire Water	448	303	+1

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

APPOINTMENTS

Quality post at Bridon Ropes

■ BRIDON ROPES has appointed Mr Rodney Hill as director of total quality, in addition to his post as production director. Mr Clive M.H. Steeper has been appointed to the new post of manufacturing operations manager.

■ THE HARTSTONE GROUP, Thame, has appointed Mr David Gratton as group finance director. He was chief financial officer.

■ Mr Stanley Clarke has been appointed to the board of THE BRISTOL EVENING POST and will succeed Mr Andrew Breach as chairman on April 1. Mr Clarke recently retired as chairman and managing director of Courier Press (Holdings).

■ Professor Andrew D. Chambers has been appointed a non-executive director of NATIONAL HOME LOANS HOLDINGS. He is dean of City University Business School.

■ Mr A. Henry Lyons has been appointed managing director of MADFORD DEVELOPMENTS, Penn, Bucks. He was managing director of Rockfort Land.

Mr Michael G. Parson *(pictured)* has been appointed group company secretary of SMITH & NEPHEW. He was group company secretary and legal adviser of Bowater.

■ Mr James Gerry has joined NICHOLSON CHAMBERLAIN COLLS FINANCIALINSTITUTIONS as a director.

■ Mr George Pavlou has been appointed national sales manager of SWISS LIFE (UK). He was area sales manager at Clerical Medical and General Life Assurance Society.

■ MANSFIELD ORIGINALS has appointed Mr Barry Hancock as chairman and joint managing director. Mr Jeffrey Russell also becomes joint managing director. Mr Frank Russell relinquishes the chairmanship but remains a consultant.

Devenish changes

■ As reported yesterday, J.A. DEVENISH has appointed Mr John Clark as deputy chairman and commercial director. He was finance director, and will continue to deal with the group's relationships with the City and institutional investors. Mr Clark is succeeded as finance director by Mr Bill Blake, who joined last year from Whitbread.

The group has been split into two operating divisions. Mr Paul Smith becomes group managing director brewing, and Mr Philip Snook becomes group managing director retail. Mr Tom Hedderson, who joined the board when Devenish acquired the Canonbury Group, has retired.

■ AWD (EXPORT) has appointed Mr Barry Laker as sales finance director. He was sales finance manager.

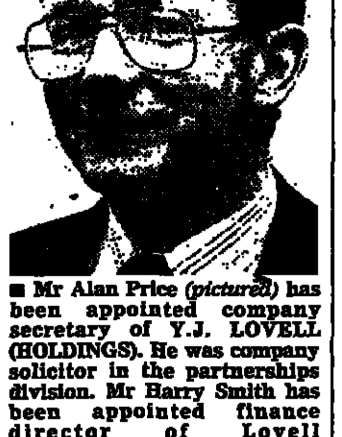
■ Mr Richard Donaldson has been appointed to the boards of ADAM & COMPANY, and Adam & Co International.

■ ANGLO BUILDING COMPANY SUPPLIERS, Long Stratton, Norfolk, has appointed Mr Stephen Eustace as an executive director. He continues to manage the sales staff.

■ Mr Martin Robert Sanderson, group controller, has been appointed to the board of CARBO, Manchester.

■ HILL SAMUEL BANK has appointed Mr Michael Palin as an assistant director, Bournemouth. He was with Standard Chartered Bank.

■ Admiral Sir Nicholas Hunt will become director general of the general council of BRITISH SHIPPING on April 15 succeeding Mr Peter Le Cheminant.



■ Mr Alan Price *(pictured)* has been appointed company secretary of Y.J. LOVELL (HOLDINGS). He was company solicitor in the partnerships division. Mr Harry Smith has been appointed finance director of Lovell Partnerships, Swindon. He was group financial controller at head office, and succeeds Mr Joe Hallegua who has retired.

LONDON SHARE SERVICE

BRITISH FUNDS

1990/91 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
[illegible]						

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

BRITISH FUNDS—Contd

1990/91 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
[illegible]						

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Contd

1990/91 High	Low	Stock	Price £	+ or -	Div Gross	C'vr	Y'ld Gr's
46⅞	35⅜	CPC Intel. 25c	40	-½	$2.00	-	2.5
930p	358p	California Engy	420p	-1	-	-	-
36⅞	23½	Campbell Soup 15c	33¼	+⅞	$1.16	-	1.8
[illegible]							

CANADIANS

Continued on next page

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 071-925-2128

BANKS, HP & LEASING

1990/91 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
£13¾	£9	ABN Amro Fl5	£9½	.....	Q28%	2.1	8.8	5.3
303	121	ANZ SA1	136	.....	Q38c	1.9	11.4	4.7
267	172	Abbey National 10p	257	.....	5.7	4.3	3.0	10.4
*274	126	Allied Irish Ord.	154	.....	†Q40%	3.3	5.8	7.0
85	47	Anglo Irish	55	.....	Q18.6%	2.3	7.6	7.2
93	58	Ansbacher (H.) 1p	58	.....	2.5	1.3	5.7	16.7
£71½	£32¾	Bancaire Cie Fr100	£52½	+¼	Q17½%	–	2.5	–
£22½	£12¾	Banco Bilbao Viz.	£15¼	–⅛	Q49.1%	2.7	5.4	6.8
£58⅞	£21¼	Banco de Santander	£24½	.....	Q28.7%	♦	5.0	♦
286	130	Bank Ireland Ir£1	164	.....	Q14.7%	2.9	8.0	5.8
£19½	£18	Bank Leumi	£19½	.....	–	–	–	–
351	320	Bank Leumi (U.K.)£1	350	.....	†15.0	–	5.7	–
134	100	Bank Scotland	127	–1	†4.55	3.4	4.8	8.1
103½	83¾	Do. 9¼pc Irrd Pf £1	103½	+½	9¼%	–	11.9	–
106½	99½	Do. 9¾pc Irrd Pf £1	106½	+1	9¾%	–	12.2	–
54	39	Bank of Wales	42	.....	2.8	0.8	8.9	(20.2)
428	290	Barclays £1	399	+4	†h19.57	3.5	6.5	5.5
22	9	Benchmark 20p	9	.....	0.75	–	11.1	–
335	195	Brown Shipley £1	218	.....	‡12.0	2.2	‡	6.8
*435	285	Cater Allen £1	433	+6	F24.5	–	7.5	–
179	29	Chancery	43	+1	‡9.0	2.7	‡	1.7
£23¾	£14	Commerzbk DM10	£17¼	–½	Q18%	–	3.6	–
£13¼	620	Dai Ichi KBk Y50	895	+6	Q17%	6.2	0.4	42.2
*£313½	£209½	Deutsche Bk DM50	£223½	+3¾	Q28%	–	2.1	–
£20¾	£14¾	Espirito Santo	£16½	+⅛	Q75c	5.1	2.3	8.5
253	152	First Nat. Fin. 10p	174	+2	13.0	1.2	10.0	(10.3)
121	78	FNFC 6.3pc Cv. Pf £1	89	.....	6.3%	–	9.4	–
£13¼	633	Fuji Bank Y50	1084	–22	†Q17%	6.9	0.3	42.7
325	262	Gerrard & National	312	+4	19.0	–	8.1	–
154	68	Guinness Mahon 10p	68	–1	1.45	–	2.8	–
328	194	Hambros 20p	249	–1	†11.5	–	6.2	–
128	88	Do. 7.5pc Cv Pf £1	109	+2	7½%	–	9.2	–
53½	29	HK & Shang. HK$2.50	36	+1	KQ39c	–	7.7	–

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ELECTRICITY

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LEISURE

LONDON SHARE SERVICE

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY – Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST – Contd

[illegible]

INVESTMENT TRUST – Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES – Contd

[illegible]

Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's
Kenmare	10	+1			
Navan Resources	15				
New Sabina Res C$1	9½				
Northgate Expl. C$1	54				
North West Expl.	12				
Nor-Quest Res.	5	+½			
Oryx Gold Hldgs	194				
Ovoca Gold IR 2p	13				
Plateau Mining 20p	42				
RTZ 10p	498	+10	†18.5	2.5	5.0
Tiverco Res. Inc.	6				
Vizcaya Hldgs 5p	8				
Young Group 10p	138		†7.8	2.7	8.0

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Highs and lows are based on intra-day mid prices. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- ‖ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ⁑ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment; Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1991. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or -
Craig & Rose £1	675	
Finlay Pkg. 5p	33	
Holt (Jos) 25p	1308	

IRISH

Stock	Price	+ or -
Cap. 8½% Ln. 1992	£99¼	
9pc Cap Ln. 1996	£96	
Fin. 13% 97/02	£112¼	
Arnotts	153	
Carroll (P.J.)	154	
Helton Hldgs.	48	
IRG	132	
United Drug	135	+7

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	6
Astec (BSR)	4½
BAT	46
BOC Grp	28
BTR	25
Barclays	38
Blue Circle	19
Boots	29
Bowaters	43
Brit Aerospace	45
British Steel	10½
Brit. Telecom	25
Cadburys	28
Charter Cons	38
Comm Union	40
Courtaulds	28
Eurotunnel	35
FKI	5
FNFC	20
Gen Accident	41
GEC	15
Glaxo	68
Grand Met	51
Guardian	17
GKN	27
Hanson	16
Hawker Sidd	35
ICI	78
Ladbroke	22
Legal & Gen.	32
Lex Service	17
Lloyds Bank	24
Lucas Inds	11
Marks & Spencer	19
Midland Bk	16
Nat West Bk	21
P & O Dfd	44
Racal Elect	16
RHM	23
Rank Org Ord	52
Reed Intnl	32
STC	19
Sears	7½
SmKl. Beecham A	41
TI	35
TSB	11
Tesco	19
Thorn EMI	55
Trust Houses	23
T&N	13
Unilever	52
Vickers	16
Wellcome	33

Property	p
Brit Land	24
Control Secs	3½
Land Securities	45
MEPC	38
Mountleigh	9

Oils	p
Aviva Petlm	3½
Brit Petroleum	27
Burmah Castrol	46
Conroy Petlm	15
Gaelic Res	1½
Premier	7
Shell	37
Tuskar Res	2
Ultramar	29

Mines	p
Lonrho	19
RTZ	48

هكذا من الأصل

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FT MANAGED FUNDS SERVICE

AUTHORISED UNIT TRUSTS

Marks & Spencer Unit Trust Ltd (1200)F
PO Box 410, Chester X, CH99 9DG 0244 680066

	Init Chrge	Bid Price	Canc. Price	Offer Price	+ or -	Yield Gr's
M & S Inv P'folio	5½	101.6	101.6xd	108.6	+0.3	2.76
Do Accum	5½	107.4	107.4xd	114.8	+0.3	2.76
UK Sel P'folio	5½	90.21	90.21	96.48	+0.40	4.91
Do Accum	5½	94.32	94.32	100.8	+0.4	4.91

Marlborough Fund Managers Ltd (1630)F
57 Victoria Square, Bolton, BL1 1LA 0204 364842

Managed Tst	5	47.09	47.47	50.50	.....	5.23

Martin Currie Unit Trusts Ltd (0905)H
48 Melville St, Edinburgh EH3 7HF Dlng 031-220 4924

Far East (Pacific)(z)	5¼	84.52	84.52	89.72	-0.48	0.47
Income & Growth	5¼	53.98	53.98xd	57.28	-0.42	5.70
European (z)	5¼	50.34	50.43xd	53.53	-0.28	1.33
Nth American (z)	5¼	31.81	31.81	33.76	-0.06	1.55
Intl Growth(9-1)	5¼	54.13	56.23	58.63	+0.25	0.86
UK Growth	5¼	47.25	47.25	50.15	-0.14	2.85
Intl Income	5¼	43.76	44.36	47.09	+0.13	6.34
High Yield	5¼	41.94	42.62xd	45.24	-0.24	7.61
Charities	5¼	83.56	84.85xd	90.07	-0.67	6.21
Japan	5¼	35.71	35.71	37.90	+0.19	—

Matheson Unit Trust Managers Ltd (1200)H
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex
Enquiries: 0277 227300 Dealing: 0277 261010

UK Growth (4-1)	6	60.13	61.50	65.78	+1.81	3.75
UK High Income	6	31.90	31.90	34.12	+0.18	5.92

Murray Johnstone UT Mgmt (1000)H
7 West Nile St, Glasgow G2 2PX 0345 090 933

Acumen	5	60.68	61.02	65.13	+0.39	3.52
Acumen Reserve	5	61.85	61.85	64.94	.....	12.06
American Income	5	103.9	103.9xd	110.0	-0.98	3.57
Equity Income	5	76.98	76.98	82.16	+0.66	5.88
European	5	48.77	48.77	52.05	.....	1.47
Far Eastern	5	90.79	90.79	96.90	+0.52	1.84
Smaller Cos	5	37.90	37.90	40.45	+0.25	4.40
Olympiad	5¼	39.41	39.41xd	42.00	+0.01	2.11
Olympiad Income	5¼	38.12	38.12xd	40.65	+0.22	4.65
UK Growth	5	63.48	63.79	68.08	+0.36	1.84

NFU Mutual Unit Mngrs Ltd (1400)F
Admin: 5 Rayleigh Road, Hutton, Brentwood, Essex
Enquiries 0277 227300 Dealing 0277 261010

Avon Equity	6	83.17	84.66xd	90.09	+0.80	4.00

NM Unit Trust Mngrs (1200)H
The Bilton Centre, North Harbour, Portsmouth
Enquiries: 0705 372222 Dealing. 0705 387730

American ♥	5¼	27.23	27.23	29.04	-0.20	1.76
(Accum Units) ♥	5¼	29.14	29.14	31.08	-0.21	1.76
Australian ♥	5¼	142.20	142.20xd	152.50	+0.90	2.35
(Accum Units) ♥	5¼	160.10	160.10	171.70	-1.40	2.35
Conscience	5¼	44.94	45.75	48.82	+0.04	1.60
(Accum Units)	5¼	47.13	47.98	51.20	+0.05	1.60
European	5¼	130.90	130.90	139.60	+0.70	1.12
(Accum Units)	5¼	138.10	138.10	147.30	+0.70	1.12
Extra Income	5¼	60.05	60.05	64.08	+0.27	9.53
(Accum Units)	5¼	80.90	80.90	86.33	+0.37	9.53
Far East Sth Acc ♥	5¼	96.34	96.34	102.90	+0.60	0.30
Gilt & F.I.	5¼	51.28	51.28xd	54.29	+0.34	9.23
(Accum Units)	5¼	107.90	107.90	114.20	+0.70	9.23

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the *FT Managed Funds Service*.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

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TSB Unit Trusts (1200)H
Charlton Pl, Andover, Hants SP10 1RE 0264 346794

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
TSB American	6	113 15	113 9	121 16	-0 68	0 57
Do Accum	6	123 69	124 5	132 44	-0.74	0 57
TSB Brit Growth	6	66 91	67.93	72 26		3 77
Do Accum	6	73 98	75 1	79 89	..	3 77
TSB European	6	67.02	67 35xd	71 64	+0 07	1 16
Do Accum	6	69 45	69.79xd	74 24	+0 07	1 16
TSB Extra Income	6	147.18	150.33	159 92	+0 53	5 67
Do Accum	6	208.16	212.61	226 18	+0 74	5 67
TSB Smaller Cos	6	37.51	38 98	41 46	+0.19	3 53
Do Accum	6	39.33	40 87	43 47	+0 2	3 53
TSB General	6	203 45	203 45xd	216 41	+0 52	4 12
Do Accum	6	379.58	379.58xd	403 8	+0 98	4 12
TSB Premier Income	5	42.83	43 48xd	45 29	+0 24	9 46
Do Accum	5	76.65	77 81xd	81.05	+0 43	9 46
TSB Income	6	272.87	278.07	295 81	+0 92	5.57
Do Accum	6	507.26	516 92	549 91	+1 7	5.57
TSB Pacific	6	195.51	198.83	211 52	+0 82	0 47
Do Accum	6	203 43	206 89	220 09	+0 85	0.47
TSB International	6	346 71	346 71	368 84	-1 2	1 32
Do Accum	6	444 73	444.73	473 11	-1 53	1 32
TSB Nat Resources	6	53 45	54 46	57 93	+0 5	1 32
Do Accum	6	57.97	59 08	62 85	+0 6	1 32
TSB Stcid Oppt	6	70 16	71.74	76.31	+0 4	3 87
Do Accum	6	83.74	85 61	91.07	+0 47	3 87
Environmental Inv	6	41 85	42 54xd	45 25	+0 12	2 49
Do Accum	6	43.18	43 88xd	46 68	+0 12	2 49
TSB Selector	6	43 5	44 21	47.03	+0 15	4 54
Do Accum	6	44 83	45 56	48 46	+0 15	4.54
TSB High Income	6	46 85	47.55	50 58	+0 26	6 23
Do Accum	6	48 09	48 81	51 92	+0 27	6.23
TSB Intl Income	6	48 56	48 8	51.91	+0 07	6 84
Do Accum	6	48.56	48 8	51.91	+0 07	6 84
TSB Selector Income	6	46.96	47.5	50.53	+0 18	6 53
Do Accum	6	46 96	47.5	50 53	+0 18	6 53

Target Trust Mngrs Ltd (1600)F

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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N & P Life Assurance Ltd
6-7 Bedford Row, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	+ or -	Yield Gross
Life Managed Fd	96.0	101.1	.....	-
Pension Managed Fd	91.9	96.7	+0.3	-
Life Deposit Fd	104.5	110.0	+0.1	-
Pension Deposit Fd	108.4	114.2	+0.1	-

National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Managed Cautionary	100.5	109.9	-0.1	-
Managed Growth	122	133.4	+0.8	-
Managed Opportunity	117.9	129.6	+0.9	-
NFMC Target Financial	90.6	98	-0.1	-
Pension Funds				
Managed Cautionary	108.9	119.1	-0.3	-
Managed Growth	127.6	140.3	+0.7	-
Managed Opportunity	120.5	131.8	+0.8	-
NFMC Target Mngd Pen	1359.8	1478.1	+7	-

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or -	Yield Gross
Harvester Pension Funds				
Managed	146.9	154.7	+2.7	-
UK Equity	152.2	160.3	+4.3	-
Overseas Equity	119.5	125.8	+1.1	-
Fixed Interest	141.4	148.9	+0.8	-
Property	130.6	137.5	+1.6	-
Index Linked	143.6	151.2	+0.7	-
Deposit	150.5	158.5	+0.4	-
With Profits (6)	126.0	132.7	+0.3	-

National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	+ or -	Yield Gross
Managed	319.6	336.5	+0.8	-
UK Equity	398.9	419.9	+01.4	-
Overseas Eq	303.8	329.8	-0.4	-
Americas	238.4	251.0	-1.3	-
Far East	317.5	334.3	+0.9	-
Property	193.4	203.6	.....	-
Fixed Int	254.1	267.5	+1.6	-
Indexed Gilt	150.5	158.3	+0.8	-
Deposit	176.6	185.9	+0.1	-
Pension Fund (Accum Units)				
Managed	446.6	470.2	+1.3	-
UK Equity	516.0	543.2	+2.5	-
Overseas Eq	501.8	528.3	-0.6	-
Americas	311.3	328.3	-2.1	-
Far East	531.1	559.1	+1.2	-
Property	242.1	254.9	+0.1	-
Fixed Int	311.4	327.8	+1.7	-

Prosperity Life Assurance Ltd
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690555

	Bid Price	Offer Price	+ or -	Yield Gross
Initial Equity	143.0	151.0	.....	-
Accum Equity	202.0	213.5	.....	-
Accum Managed	209.5	221.0	-0.5	-
Accum Five Star	154.0	162.5	+1.0	-
Accum World	112.5	119.0	+1.0	-
Accum Lifetime	103.8	103.8	+0.3	-
Pens Acc Equity	214.0	226.0	.....	-
Pens Acc Managed	253.0	267.0	-0.5	-
Pens Acc Intl	183.0	193.5	-0.5	-
Pens Acc Deposit	191.5	202.5	+0.5	-
Pens Acc Five Star	164.0	173.0	+1.0	-

Providence Capital Life Assc. Co Ltd
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equity Acc	205.5	216.8	+0.8	-
UK Fixed Int Acc	167.7	177.0	+0.3	-
Intl Equities Acc	157.5	166.2	+2.3	-
UK Managed Acc	161.1	169.9	+0.5	-
Property Acc	226.4	238.9	.....	-
Money Acc	125.7	132.7	+0.1	-
Special Market Acc	126.9	133.9	-0.4	-
Japan Equity Acc	93.9	99.1	+0.5	-
North American Acc	91.4	96.5	-0.6	-
Pacific Acc	79.8	84.2	+0.1	-
Technology Acc	98.2	103.6	+2.2	-
Nat Resources Acc	48.5	51.2	-0.1	-
European Acc	92.3	97.4	-0.5	-
Residential Prop Acc	95.8	101.1	.....	-
Swiss Equities Acc	32.8	34.6	-0.4	-
Hong Kong Acc	50.7	53.5	+0.2	-
UK High Inc Eq Acc	67.2	70.9	+0.5	-
Int Fixed Interest Acc	54.3	57.3	-0.2	-
Int Managed Acc	52.2	55.0	+0.4	-
HIP Managed Acc	104.5	110.2	+0.4	-
HIP Managed II Acc	91.5	96.5	+0.6	-
Total Investment Bond				
UK Equity Initial		140.3	+0.4	-
UK Fixed Int Initial		114.8	+0.1	-
Intl Equities Initial		107.0	+1.5	-
UK Managed Initial		110.3	+0.4	-
Property Initial		156.1		-
Money Initial		86.5	+0.1	-
Special Market Initial		99.0	-0.3	-
Japan Equity Initial		73.3	+0.4	-
North American Initial		71.3	-0.5	-
Pacific Initial		62.2	+0.1	-
Technology Initial		76.5	+1.6	-
Nat Resources Initial		37.9	.....	-
European Initial		83.2	-0.5	-
Residential Prop Init		91.9	.....	-
Swiss Equities Initial		31.4	-0.4	-
Hong Kong Initial		48.6	+0.2	-
UK High Inc Eq Init		64.5	+0.5	-
Int Fixed Interest Init		52.8	-0.1	-

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

OFFSHORE INSURANCES

MANAGEMENT SERVICES

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	Bid Price	Offer Price	+ or -	Yield Gros
Nikko Capital Mngt (Europe) Ltd				
Japan Index Fund	Y2,831	2,859	...	–
New Generation Fd S	$22.18	22.40	...	–
Japan Index Alpha	Y7,744	7,8[illegible]1	...	–
Jap Sector Rotation	Y6,985	7,0[illegible]	...	–
Jap Cap Gwth CB	[illegible]	[illegible]	...	–
Saudi International (Guernsey) Ltd				
Intl Bond	$10.33	10.51	...	–
Intl Dollar	$10.30	10.31	...	–
Intl Equity	$10.54	10.90	...	–
Falcon High Income	$89.37	89.37	...	–
Schroder Investment Mngmt (Guernsey) Ltd				
Latin American	$12.3499	13.0781	+1.5	–
Stonehage Fund Mngrs Ltd				
Intl Man Fd	$11.61	11.67	...	–
U.S. Treasury Securities Fund Ltd				
Short Term Shares	$750.39		...	–
Fixed Income Shares	$876.24		...	–
Yamaichi Capital Mangmt (Guernsey) Ltd				
Japan Meta Growth	$11.09		–0.06	–
Yamaichi ISS Fund	$8.03		–0.02	–
Yamaichi CB Plus Fund	$8.82		–0.05	–
Thai Ins Fund	$10.43		...	–

IRELAND (SIB RECOGNISED)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
GAM Fund Management Ltd (x) 29 Kildare Street, Dublin 010 353 1760 630						
GAM Universal US Dlr Acc		S–	111.56		...	–
GAM Universal US Dlr Inc		S–	111.56		...	–
GAM Universal DM Acc		DM–	105.97		...	–
GAM Universal DM Inc		DM–	105.97		...	–
MI Global Asset Mngmt Co Ltd "MI Trusts"						
MI Global Dollar		S–	1.00	1.07	...	–

IRELAND (REGULATED)(**)

Baring International Fd Mngrs (Ireland) Ltd

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F PO Box 63, Bond Street, St. Helier, Jersey 0534 76029						
Stlg Fixed Inc	5½	£1.113	1.113xd	1.182	[illegible]	10.01
Offshore High Yield	3½	£1.445	1.445	1.503	[illegible]	14.47
Global Equity Fund	5½	$14.39	14.67	15.48	–0.03	1.30
European Equity	5½	[illegible]	16.36	17.50	–0.06	1.16
UK Growth (C) Fund	5½	£4.299	4.299	4.598	[illegible]	3.92
Nth American Eqty	5½	$9.729	9.729	10.378	[illegible]	0.58
Far Eastern Eqty	5½	$9.233	9.370	10.021	[illegible]	0.00
Intnl. Bond Fund						
Sterling Managed	5½	£10.16	10.16xd	10.84	+0.01	8.86
US Dollar Managed	5½	$13.68	13.68xd	14.46	...	5.91
International Currency Fund						
Sterling Managed	5½	£25.00	25.00	26.46	–0.01	–
US Dollar Managed	5½	$29.16	29.16	30.86	...	–
Sterling	0	£24.16	24.16	24.16	...	13.50
US Dollar	0	$37.43	37.43	37.43	...	5.92
Deutschmark	0	[illegible]	58.79	58.79	+0.02	7.68
Japanese Yen	0	Y4,772	4,772	4,772	+1	6.26
Swiss Franc	0	[illegible]	45.89	45.89	+0.01	6.94
Irish Punts	0	I£21.74	21.74	21.74	...	6.71
INVESCO MIM International Limited PO Box 271, St Helier, Jersey 0534 73114						
Jersey Gilt (z)	5¼	[illegible]	0.1694	0.1785	...	9.24
Lloyds Bank (CI) U/T Mgrs. PO Box 195, St Helier, Jersey 0534 27561						
Lloyds Tst. Gilt	2½	[illegible]	9.511xd	9.760	[illegible]	11.48
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd PO Box 26, St Helier, Jersey 0534 37788						
Intl Circuit Portfolio	6	92.38	92.38	97.99	+0.61	0.00
Gilt	3	93.19	93.19xd	96.08	+0.61	10.41
For MIM see INVESCO MIM						
Royal Trust Jsy Fd Mngt Ltd (1400)F PO Box 428, St Helier, Jersey 0534 76077						
Govt Secs Fd	4	56.77	56.77	59.25	+0.18	10.90
TSB Trust Funds (CI) PO Box 538, St Helier, Jersey 0534 73494						
TSB Offshore Investment Fund Ltd						
Stg Deposit Class	3	102.84	102.84xd	105.92	–0.02	13.30
Gilt & Fixed Interest	5	104.20	104.20xd	107.37	+0.23	11.63
Sha Cap & Gilt Eqnt	5	46.96	46.96	49.80	+0.24	9.82
International Bond	5	104.50	104.50	109.77	–0.04	7.52
UK Equity	5	87.33	87.33	94.05	–0.96	1.62
International Equity	5	92.61	92.61	98.95	–0.27	0.43
Far Eastern	5	78.46	78.46	83.86	[illegible]	0.00

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

هكذا من الأصل

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Pound and peseta weather cuts

THERE WAS little movement among the currencies in the European Monetary System yesterday, despite interest cuts by Britain and Spain. Sterling was the weakest member of the EMS exchange rate mechanism, but gained a little ground against the D-Mark as a period of uncertainty about the timing of UK rate cuts came to an end. After a signal from the Bank of England bank base rates were cut by ½ point to 13½ per cent.

Sterling remained above DM2.8900 throughout and closed in London at DM2.9000, compared with DM2.8950 on Tuesday. The pound also rose to FFr9.8800 from FFr9.8650; to SFr2.4875 from SFr2.4800; and to Y257.00 from Y255.50, but fell 10 points to $1.9910. Its index gained 0.3 to 94.6.

It is assumed that Friday's UK retail price index for January will provide encouraging news on inflation. The year-on-year inflation rate was 9.3 per cent in December, but has been widely forecast to fall. Government officials hinted yesterday that the rate cut was taken in the light of an improving inflationary trend.

Mr Norman Lamont, chancellor of the exchequer, told parliament in London that he favours rate cuts that can be sustained, with no risk that the reductions might have to be reversed. He rejected suggestions that economic problems have been caused by sterling's ERM entry last October.

The Spanish peseta stayed at the top of the ERM after the Bank of Spain cut its money market intervention rate by 0.2 per cent to 14.50 per cent. The Spanish authorities said the reduction in the Bank of Spain's main instrument of credit policy was a reaction to easier interbank rates over the last week or so. But market sources suggested that the timing of rate cuts by Britain and Spain appeared to be too close to be mere coincidence and may have been an agreed move by the two countries.

It was noted that senior ministers in Britain and Spain have spoken recently of the need to reduce inflation and that the latest evidence has not been good, with British producer output prices and Spanish retail prices both rising at a much sharper than expected 1.2 per cent in January.

Rumours that the Bank of Japan was about to cut its discount rate were denied in Tokyo yesterday, but dealers expect a reduction in Japanese rates within the near future.

Today's meeting of the German Bundesbank council is not expected to result in any change in official German rates. Much of the nervousness seen on the foreign exchanges recently has stemmed from a rise in rates at the last council meeting and a cut in the US Federal Reserve's discount rate the following day.

The dollar was a little firmer yesterday, rising to DM1.4565 from DM1.4530; to Y129.05 from Y128.25; to SFr1.2495 from SFr1.2445; and to FFr4.9625 from FFr4.9525. Its index climbed to 59.5 from 59.4.

£ IN NEW YORK

Feb.13	Latest	Previous Close
£ Spot	1.9925-1.9935	1.9880-1.9890
1 month	1.09-1.07pm	1.15-1.13pm
3 months	3.16-3.13pm	3.28-3.25pm
12 months	9.82-9.74pm	9.92-9.82pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

EMS EUROPEAN CURRENCY UNIT RATES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

FINANCIAL FUTURES AND OPTIONS

LONDON (LIFFE)

CHICAGO

BASE LENDING RATES

POUND - DOLLAR

MONEY MARKETS

Rates cut to 13½%

THE BANK of England and the Bank of Spain moved to cut interest rates yesterday. UK bank base rates fell ½ point to 13½ per cent after the Bank of England offered to lend money to the discount houses at 13½ per cent as part of its daily money market operations. The central bank also cut its market intervention rates on bills by ½ point.

Wholesale interest rates declined on the news, with three-month interbank falling to 13⅝-13½ from 13⅞-13¾ per cent.

UK clearing bank base lending rate 13.5 per cent from February 13, 1991

On Liffe prices of short sterling futures rose on hopes of further reductions in base rates before delivery on March 20. The contract opened at 87.08 and rose to 87.30 on the Bank of England's interest rate signal. It closed at 87.22 compared with 87.04 previously.

The Bank of England initially forecast a day-to-day credit shortage of £850m on the London money market and at the same time signalled lower interest rates with its lending offer to the discount houses. The forecast shortage was later revised down to £650m and total help of £649m was provided.

An early round of help was offered and at that time the authorities bought £71m bills outright, by way of £5m bank bills in band 1 at 13¾ per cent and £66m bank bills in band 2 at 13¾ per cent. Before lunch another £13m bank bills were purchased in band 2 at 13¼ per cent.

In the afternoon £215m bank bills were bought in band 2 at 13¼ per cent. The Bank of England also lent £350m to the market at a rate of 13½ per cent.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £245m, with the unwinding of bill repurchase agreements absorbing £284m, exchequer transactions £310m and a rise in the note circulation £80m.

In Madrid the Bank of Spain cut its repurchase rate on central bank certificates to 14.5 from 14.7 per cent at yesterday's tender. This rate is the main instrument of Spanish credit policy, and has been unchanged since a rise from 14.65 per cent on December 24.

In Frankfurt call money rose to 8.675 from 8.60 per cent after the Bundesbank drained a net DM1.6bn from the banking system at a two-tranche securities repurchase agreement tender.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

No.7,468 Set by DINMUTZ

ACROSS

1 Ball, a kind of function (6)

4 Doctor, a Bowness eccentric (8)

10 Slatterns things? (7)

11 Decorated English tile (7)

12 Longing for Beethoven's fifth, forgetting the opening (4)

13 0? (4-6)

15 Bound to be fit after fifty-one (6)

16 Walpoles rogue does not open the drinks (7)

20 Arms store often turned out on field (7)

21 Butter (double English) on Billy's chin? (6)

24 Alongside, would you say, facing a corner (10)

26 Powerful beer contains boron (4)

28 In the company of doctor, in anxiety-state (7)

29 Light worker, more idle after midnight? (7)

30 Wherein a sewer is camouflaged (8)

31 Exotic fruit embedded in Caerphilly cheese (6)

DOWN

1 Bunthorne's Bride, for example, built set to order (8)

2 One raises the issue at mealtimes (4-5)

3 Genuine old coin (4)

5 Acknowledged news read out (8)

6 The man of the match? (10)

7 Thing about Tennyson's black bat? (5)

8 Blunder in modest wine (6)

9 I need the end of god to turn me on! (5)

14 To rest soundly, get the slip in order (5,5)

17 Found to be less habit-forming (9)

18 Attractive property of a bar? (8)

19 Prepare for the ?? (8)

22 Crush rubbish outside hospital (6)

23 States year of birth – that is the custom (5)

25 Bloomer to have £25, taking in first at Epsom (5)

27 Name a line that is never in the country (4)

Solution to Puzzle No.7,467

WORLD STOCK MARKETS

AUSTRIA — February 13 — Sch — + or −

[illegible]

BELGIUM/LUXEMBOURG — February 13 — Frs. — + or −

[illegible]

DENMARK — February 13 — Kr — + or −

[illegible]

FINLAND — February 13 — Mks — + or −

[illegible]

FRANCE — February 13 — Frs. — + or −

[illegible]

FRANCE (continued)

[illegible]

GERMANY — February 13 — Dm. — + or −

[illegible]

GERMANY (continued)

[illegible]

ITALY — February 13 — Lire — + or −

[illegible]

NETHERLANDS — February 13 — Fls. — + or −

[illegible]

NORWAY — February 13 — Kroner — + or −

[illegible]

SPAIN — February 13 — Pts. — + or −

[illegible]

SWEDEN — February 13 — Kroner — + or −

[illegible]

SWEDEN (continued)

[illegible]

SWITZERLAND — February 13 — Frs. — + or −

[illegible]

SOUTH AFRICA — February 13 — Rand — + or −

[illegible]

JAPAN — February 13 — Yen — + or −

[illegible]

AUSTRALIA — February 13 — Aust$ — + or −

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG — February 13 — H.K.$ — + or −

[illegible]

MALAYSIA — February 13 — MYR — + or −

[illegible]

SINGAPORE — February 13 — S$ — + or −

[illegible]

Price data supplied by Telekurs.

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. ✠ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO

3:00 pm prices February 13

Quotations in cents unless marked $

Sales	Stock	High	Low	Close	Chng
[illegible]					
2200	Cara Op	u$16¾	16½	16½	
2400	Canam Dev	u$14½	14½	14½	+½
1900	Cascades	u460	460	460	+20
3200	Cntrl Cap	u$7⅞	7⅞	7⅞	+⅛
8100	Cinepx Odn	310	300	300	−10
1300	Cntrl Fd A	460	450	460	
70800	Cominco	u$24¼	23½	24	+¼
6300	Coputalog	265	265	265	
[illegible]					
112100	Lac Minls	$9¼	9	9¼	+⅛
3000	Lafarge	$16½	16¾	16¾	−¼
12900	Laidlaw A x	$23	22⅞	22⅞	−⅛
922100	Laidlaw B x	$23⅛	21⅞	22⅞	−⅝
300	Laurent Bk	u$16⅝	16½	16½	+⅛
1500	Laurent Gp	u$6⅞	6½	6⅝	−⅛
41600	Lumonics Mar	$9⅞	9⅛	9⅛	−⅛
[illegible]					

- No voting rights or restricted voting rights

MONTREAL

3:00 pm prices February 13

[illegible]

Total Sales 14,288,500 shares

INDICES

NEW YORK

DOW JONES	Feb. 12	Feb. 11	Feb. 8	Feb. 7	1990-91 HIGH	1990-91 LOW	Since compilation HIGH	Since compilation LOW
ϕIndustrials	2874.75	2902.23	2830.69	2810.64	2999.75 (16/7/90)	2365.10 (11/10/90)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	94.54	94.39	93.82	93.69	93.82 (8/2/91)	88.44 (24/9/90)	95.52 (9/2/87)	54.99 (1/10/81)
Transport	1111.42	1127.12	1102.26	1103.67	1212.77 (6/6/90)	821.93 (17/10/90)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	217.18	217.62	214.66	213.47	236.23 (2/1/90)	190.96 (24/8/90)	236.23 (2/1/90)	10.50 (8/4/32)

ϕDay's High 2923.02 (2910.64) Low 2848.27 (2822.52)

STANDARD AND POOR'S	Feb. 12	Feb. 11	Feb. 8	Feb. 7	1990-91 HIGH	1990-91 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	365.50	368.57	359.34	356.52	368.95 (16/7/90)	295.46 (11/10/90)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	430.76	434.57	423.79	420.38	437.37 (16/7/90)	346.86 (11/10/90)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	28.50	28.54	27.50	27.33	31.87 (3/1/90)	18.80 (29/10/90)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	199.43	200.85	196.10	194.74	201.13 (16/7/90)	162.20 (11/10/90)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	340.65	341.10	336.88	334.66	382.45 (5/1/90)	288.07 (30/10/90)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	443.98	444.10	436.80	435.01	469.60 (16/7/90)	325.44 (16/10/90)	485.73 (9/10/89)	54.87 (31/10/72)

	Feb. 8	Feb. 1	Jan.25	year ago (approx.)
Dow Industrial Div. Yield	3.57	3.70	3.88	4.09

	Feb. 6	Jan.30	Jan.23	year ago (approx.)
S & P Industrial div. yield	3.01	3.20	3.30	2.89
S & P Indl. P/E ratio	17.39	16.58	16.09	14.68

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Boeing	5,860,100	48¼	- 3⅛
RJ Nabisco	3,888,500	7¼	- ⅛
Philip Morris	3,334,900	60¼	- 1⅞
Citicorp	2,985,600	15⅞	- ⅛
Pepsico	2,825,300	30¼	- ⅛
West Elec	2,600,400	29⅝	+ ¼
Unysis Corp	2,527,700	3⅞	- ⅛
McDonalds	2,525,700	31¼	+ 1¼
Gen Electric	2,414,900	66⅞	+ ¼
Wal-Mart Stores	2,378,400	35⅜	- 1⅛

TRADING ACTIVITY

† Volume (Millions)	Feb. 12	Feb. 11	Feb. 8
New York	258.780	265.350	187.840
Amex	18.646	20.106	13.968
NASDAQ	200.737	184.836	168.187
Issues Traded	2,057	2,074	2,037
Rises	772	1,427	977
Falls	860	316	618
Unchanged	425	331	442
New Highs	179	215	84
New Lows	5	5	2

CANADA

TORONTO	Feb. 12	Feb. 11	Feb. 8	Feb. 7	1990-91 HIGH	1990-91 LOW
Metals & Minerals	3169.40	3172.17	3071.77	3062.19	3453.05 (4/1/90)	2486.60 (8/11/90)
Composite	3504.78	3501.19	3445.27	3431.67	4009.47 (3/1/90)	3009.91 (16/10/90)
MONTREAL Portfolio	1880.34	1880.74	1851.31	1845.03	2060.90 (3/1/90)	1607.24 (16/10/90)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Feb. 13	Feb. 12	Feb. 11	Feb. 8	1990-91 HIGH	1990-91 LOW
AUSTRALIA All Ordinaries	[illegible]					
All Mining	[illegible]					
AUSTRIA Credit Aktien	[illegible]					
BELGIUM Brussels SE	[illegible]					
DENMARK Copenhagen SE	[illegible]					
FINLAND Unitas General	[illegible]					
FRANCE CAC General	[illegible]					
CAC 40	[illegible]					
GERMANY FAZ Aktien	[illegible]					
Commerzbank	[illegible]					
DAX	[illegible]					
HONG KONG Hang Seng Bank	[illegible]					
IRELAND ISEQ Overall	[illegible]					
ITALY Banca Com. Ital.	[illegible]					
JAPAN Nikkei	[illegible]					
Tokyo SE (Topix)	[illegible]					
2nd Section	[illegible]					
MALAYSIA KLSE Composite	[illegible]					
NETHERLANDS CBS Tot.Rtn.Gen.	[illegible]					
CBS All Shr	[illegible]					
NORWAY Oslo SE	[illegible]					
PHILIPPINES Manila Comp	[illegible]					
SINGAPORE SES All-Singapore	[illegible]					
SOUTH AFRICA JSE Gold	[illegible]					
JSE Industrial	[illegible]					
SOUTH KOREA Korea Comp Ex.	[illegible]					
SPAIN Madrid SE	[illegible]					
SWEDEN Affarsvarlden Gen.	[illegible]					
SWITZERLAND Swiss Bank Ind.	[illegible]					
SBC General	[illegible]					
TAIWAN Weighted Price	[illegible]					
THAILAND Bangkok SET	[illegible]					
WORLD M.S. Capital Intl.	[illegible]					

[illegible]

TOKYO - Most Active Stocks

Wednesday 13 February 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
M'bishi Mtrls	37.6m	753	+53	Kurabo Inds	15.7m	1,550	-40
Nippon Steel	34.2m	490	-10	Honshu Paper	15.5m	1,740	+50
M'bishi Heavy	26.6m	808	-6	NKK	15.2m	437	+4
Chiyoda Corp	26.0m	2,600	+230	Keisei Elec Rl	13.5m	1,710	+120
Ebara	17.7m	1,690	+150	I'kawajima-Hma.	12.1m	770	+11

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

3:00 pm prices February 13

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Quote	Close Prev.	Ch'ge
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

3:00 pm prices February 13

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3:00 pm prices February 13

AMERICA

Boeing declines again as market pace slows down

Wall Street

THE RECENT hectic pace of trading slowed yesterday morning as sporadic profit-taking and occasional buying left share prices slightly lower at midsession, *writes Patrick Harverson in New York.*

By 1.30 pm the Dow Jones Industrial Average was down 2.23 at 2,872.52. The Standard & Poor's 500 was also weaker, easing 0.52 to 364.98 by 1 pm, while the Nasdaq composite index of over-the-counter stocks edged 0.22 higher to 444.20. Turnover was slightly below recent levels, at 123m shares by 1 pm, with the number of advancing and declining issues almost equal.

Sentiment might have been unsettled by yesterday's retail sales data. Although the 0.9 per cent decline in January was in line with expectations (most of that fall was accounted for by lower car sales), the revision of the December figure to show a much larger fall of 1.5 per cent was a surprise.

Boeing was again heavily traded, the stock falling $1⅛ to $46⅞ on turnover of 3.4m shares. Boeing has been sold this week because of fears that the slowdown in worldwide passenger traffic will cut into the company's sales of commercial aircraft. British Airways has delayed the introduction of new Boeing-made aircraft to its fleet, and yesterday another airline, Qantas of Australia, said that it was postponing indefinitely the delivery of Boeing jets.

Aetna, the insurance company, rose $⅞ to $46½ after reporting a drop in fourth quarter profits. Among technology stocks, Compaq fell $1¾ to $71¼ and Silicon Graphics fell $1⅞ to $39⅞ after Silicon denied reports that it was in merger talks with Compaq or any other technology companies. However, Silicon did say that it was discussing business pacts with a number of unnamed companies.

From today, all international share prices are provided by Telekurs.

Campbell Soup rose against the trend, putting on $1⅞ to $67⅞, a year's high, in the wake of a buy recommendation from an analyst at Morgan Stanley. The analyst thinks that Campbell Soup will report better-than-expected second quarter earnings today.

Fieldcrest Cannon, the household textile producer, jumped $1⅝ to $11 on speculation that the company is up for sale. Industry analysts believe that Fieldcrest might fetch $12 to $16 a share in a buy-out, and could be sold in pieces. On Tuesday the company reported a fourth quarter loss.

CBS, the broadcasting group, dropped $3¼ to $165 after reporting a fourth quarter loss and announcing that it was slashing its dividend from $1.10 to just 25 cents a share. Like all television companies, CBS has suffered from the sharp fall in advertising revenues because of the recession and the Gulf war.

Among over-the-counter stocks Research Industries climbed $1⅛ to $18⅛, a 52-week high, as the market reacted positively to the company's new line of cardiovascular specialty catheters, launched on Tuesday.

Applied Materials also moved against the trend, gaining $1 to $31¼ on the back of first quarter net income above market expectations.

Canada

MODERATE profit-taking in banks and other big capital issues pushed Toronto stocks lower in midday trade. The composite index fell 10.6 to 3,494.2. Declines led advances by 247 to 232 on volume of 16m shares.

Bank shares, which have climbed over 13 per cent since the beginning of the Gulf war, led the losses. Royal Bank of Canada lost C$⅛ to C$25, Bank of Montreal fell C$⅜ to C$33¾, Bank of Nova Scotia eased C$⅜ to C$14¼ and Canadian Imperial dropped C$¼ to C$30⅝.

EUROPE

Bourses rise in optimistic trading after UK move

RENEWED hopes that interest rates were on the way down, following cuts in the UK and in Spain, lifted most bourses yesterday, although Sweden fell on worries about forthcoming corporate results, *writes Our Markets Staff.*

MADRID firmed in active trading after a cut in interest rates at the 10-day auction of certificates. The general index rose 2.43 to a year's high of 247.16. Mr Paul Farrow, of Madrid brokers FG, said that today's results of the one-year Treasury bill auction would give a clearer picture of the longer term outlook for interest rates.

Mr Farrow expected some profit-taking to occur in the short term, as the recent rally had occurred because stocks looked cheap, rather than on hopes of an imminent rate cut.

Banks and electric utilities continued to advance, but Telefónica slipped Pta5 to Pta929 with 2.2m shares traded.

MILAN saw frantic trading in Generali, the insurer, in a crescendo of rumours about the future shareholding structure of Italy's only large publicly held company. Generali rose L1,404 or 4.4 per cent to L33,260 with about 500,000 shares traded at the official fixing. The stock advanced to L33,475 after hours.

Generali has long been a subject of takeover or stake-building rumours. Yesterday, the more plausible theories intermingled with the ridiculous. Most analysts dismissed rumours of Japanese buying and gave credence to a joining of forces between Mediobanca and Lazard Frères, Generali's two largest single shareholders, or strategic buying by Axa-Midi of France in a bid to get a more equal footing with its Italian shareholder.

The activity in Generali boosted turnover to well over L200bn after Tuesday's L184bn, although position-squaring before the close of the account today also contributed. The Comit index rose 6.57 or 1.2 per cent to 537.23.

FRANKFURT put Tuesday's weakness behind it and followed the bond market higher. "Many cash-rich institutions are scared that they might miss the boat," said one dealer. The DAX index rose 20.47 or 1.4 per cent to 1,489.41, while the FAZ index, calculated at midsession, put on 4.65 or 0.7 per cent to 632.21. Volume was steady at DM5.2bn.

Deutsche Bank rose DM11 to DM647.50 and was the day's most active issue with 1.5m shares traded. Dealers noted that Deutsche might be helping its share price in connection with its recent issue of profit-sharing certificates and warrants. There was also demand for the chemical major Bayer, which closed DM3.80 higher at DM242.80.

Lufthansa, the national airline, added another DM3 to DM113 on UK buying. Airline stocks have been in focus on the Continent as some investors have taken the view that European carriers are in a healthier state than their US counterparts, and that they are using the Gulf war as a scapegoat for overdue cost-cutting.

AMSTERDAM came off the day's highs on late profit-taking. The CBS Tendency index closed at 83.8, up 0.3 but off the day's peak of 84.2.

Hunter Douglas, the precision machinery and window covering group, plunged Fl 5.40 or 8.9 per cent to Fl 54.90 following its profit warning late on Tuesday. KLM, the airline, eased 40 cents to Fl 21.50 after its recent strength.

PARIS edged higher, but finished below its peak. The CAC 40 index closed at 1,635.84, up 9.60 but down from 1,642.21. Turnover was estimated at below Tuesday's FFr2.35bn.

Suez lost FFr3.10 to FFr284.50 before a widely expected announcement that it was increasing its holding in Société Générale de Belgique for FFr2.1bn. The seller of the new stake, Cerus, the holding company of Italian financier Mr Carlo de Benedetti, dropped FFr3.90 or 3.1 per cent to FFr121.30. Suez also said that it planned to merge with its La Hénin arm, which is due to be requoted today after its suspension on Monday.

Club Méditerranée shed FFr13 or 3.1 per cent to FFr413 after announcing plans to raise FFr417m through a rights issue. It also said that it had agreed to buy its competitor, Club Aquarius.

ZURICH recovered from early profit-taking to close higher, with the Crédit Suisse index up 5.8 or 1.4 per cent at 508.4. The market benefited from foreign buying of blue chips, especially from the UK.

Roche certificates jumped SFr110 or 2.8 per cent to SFr4,080 and Alusuisse bearers gained SFr32 or 3.2 per cent to SFr1,030. Swissair slipped SFr10 to SFr660; the airline said that it would introduce short-time working for all staff from mid-March.

STOCKHOLM was led lower by a sharp fall in industrial equipment group Atlas Copco's shares before the company's 1990 earnings report, due tomorrow. The free B shares fell SKr37 to SKr195 in heavy trading. The Affärsvärlden General index lost 5.5 or 0.6 per cent to 965.5 in volume of SKr286m after SKr402m.

OSLO rose again, the all-share index picking up 4.23 to 466.97, although turnover shrank to NKr300m from NKr395m. Dyno Industrier fell NKr5 to NKr120 after reporting disappointing 1990 profits.

Lower interest rates help Manila recover

The market index has risen 45 per cent since January 15. **Greg Hutchinson** reports

FALLING interest rates have helped to spark a resurgence of interest in Philippine equities this year, a market that had been largely in the doldrums since the December 1989 coup attempt.

The Manila stock market eased yesterday in a technical correction to recent gains. The composite index fell 21.40 to finish at 866.01, and turnover on the twin Manila and Makati exchanges fell to 129.6m pesos ($4.6m) from the previous day's 203.7m pesos.

The index has climbed 45.5 per cent since January 15, with the occasional one or two-day correction. It recently achieved its biggest daily rise in points terms since the heady, bullish days before the December 1989 coup attempt – gaining 58.29 points or 7.2 per cent to 863.45 on Wednesday last week.

The only other significant one-day rally since the serious coup attempt just over a year ago had been a 53.02-point gain on June 13, when President Corazon Aquino launched her political movement, Kabisig. That temporary spurt apart, dull, bearish play had predominated, as interest had shifted elsewhere in south-east Asia.

Share prices followed last Wednesday's surge by initially moving yet higher, after the news that two of five coup leaders had been captured in Makati, Manila's financial district and the battle ground during the insurrection. But a technical correction after the sharp price rises set in mid-morning, bringing the composite index down slightly.

That correction was regarded as healthy by Mr Alex Carlos, an analyst with broker Anscor Hagidon. Since then, the market has seen another day of gentle profit-taking and further gains on Monday and Tuesday this week, before yesterday's correction.

The trend is still upwards, now that interest rates are falling, says Mr Carlos. Treasury bill rates have fallen about 7 percentage points from more than 30 per cent in the past four weeks. Interest rates are expected to continue to fall, as International Monetary Fund (IMF) money and other overseas finance arrives through February and early March.

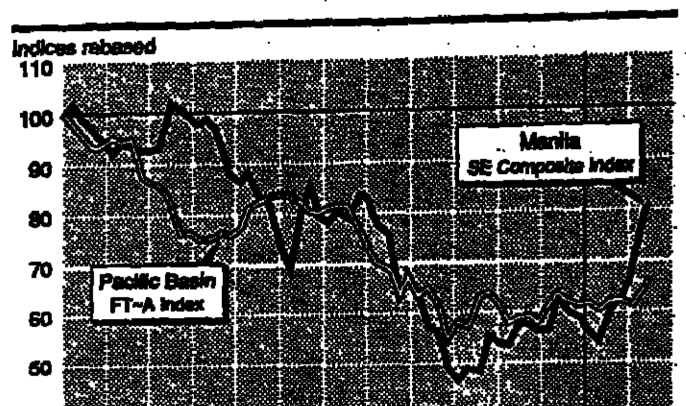
Mr Carlos says that the recent buying interest has been mostly local. "There is no real significant foreign buying because foreign accounts are looking for big blocks."

Other brokers, however, have reported increased overseas interest. Mr Yoshiaki Ara, managing director of Sanyo Securities of Japan, said recently that his group had "initiated investments on the local stock market".

Even with the rises of recent weeks the Philippine market's capitalisation is barely half its level prior to the 1989 coup attempt – an event that began a year of attrition in investor confidence.

President Corazon Aquino's government, significantly weakened by that attempted coup, failed to solve the Rightist military threat – and destabilisation efforts, including bombings, continued throughout last year. Drought, acute power shortages and severe natural disasters also helped to keep investors on the sidelines.

The new year has brought back a measure of confidence in the Philippines and its government. Mr Oscar Orbos, the new executive secretary, is streamlining administration at the presidential palace, an austerity agreement has been agreed with the IMF to reduce significantly the country's yawning budget deficit, and an agreement extending the US use of its Philippine bases is said to be in sight.



ASIA PACIFIC

Nikkei clears 25,000 on easier credit hopes

Tokyo

SHARE PRICES firmed yesterday on an early morning television report of an imminent discount rate cut. Profit-taking ate into gains, but the Nikkei average managed to close above the psychologically important 25,000 level for the first time since October 31 last year, *writes Emiko Terazono in Tokyo.*

The index ended at 25,139.47, up 204.46, rising for the seventh consecutive day. Trading remained active, with 950m shares changing hands, just below Monday's heavy turnover of 1bn shares.

After opening at 24,932.95, the Nikkei climbed to the day's high of 25,225.80. Afternoon profit-taking by financial institutions pushed the index down to the day's low of 24,981.47, but programme-buying towards the end of the session spurred a fresh advance. Gains finally led losses by 668 to 341, with 126 issues unchanged.

The Topix index of all first section stocks rose 13.82 to 1,879.48, and in London the ISE/Nikkei 50 index added 4.40 at 1,451.13.

Foreigners continued to lead the buying. Mr Shin Tokoi, equity sales director at County NatWest Securities, said the activity of the foreigners had encouraged cash-rich domestic institutions and individuals to follow suit. "There was enough buying to sustain the index against selling by some domestic institutions who wanted to realise profits before March," he added.

Financial markets responded to a report by a leading television station that the Ministry of Finance was studying the possibility of a 0.5 per cent discount rate cut. While officials at the Bank of Japan and the Ministry of Finance denied the report, the three-month certificate of deposit rate fell below 8 per cent for the first time in six months. The dollar soared on the news, briefly hitting Y129.20 in early Sydney trade.

Traders noted a shift in investors' interest from large-capital stocks to the small and medium-sized issues. Nippon Steel shed Y10 to Y490 and Mitsubishi Heavy lost Y6 to Y808 on profit-taking. Mr Yutaka Nakai at Daiwa Securities commented: "Investors were concerned that the large-capital stocks were rising too fast."

Securities houses were purchased as laggards. Nomura Securities improved Y10 to Y2,150 and Daiwa Securities added Y20 at Y1,470.

Industrial plant engineering companies were strong on hopes of an influx of orders after the Gulf war. Chiyoda jumped Y230 to Y2,600. Ebara rose Y150 to Y1,690 on expectations that its sewage disposal pumps would be used to clean up the oil slicks in the Gulf.

Itoman forged ahead Y31 to Y572. Investors were encouraged by a report that Sumitomo Bank, which is supporting the company's restructuring plans, will cut interest rates on its loans to Itoman.

Asatsu, a medium-sized advertising company, surged Y230 to Y5,720. The company announced that its shares will be traded in lots of 100 from May 1, as opposed to the current lots of 1,000, to increase the number of shareholders.

Speculative issues, which had been sold heavily recently, were popular among investors looking for quick gains. Honshu Paper put on Y50 to Y1,740. Kurabo Industries, however, receded Y40 to Y1,550 on reports that a speculative group, which had previously announced that it had sold its holding in the company, still had a major stake.

In Osaka, the OSE average climbed 463.55 to 27,189.18 on volume of 126.7m shares. Meisei Industrial, an engineering company with liquefied natural gas (LNG) plant projects, moved ahead Y55 to Y1,020 on expectations of an increase in demand for LNG in the near future.

Roundup

PACIFIC Rim markets put in a mixed performance yesterday. Hong Kong, Kuala Lumpur, Seoul and Taiwan will be closed today for the Chinese new year holidays.

NEW ZEALAND suffered from profit-taking. The Barclays index closed 19.94 or 1.4 per cent lower at 1,407.94, while turnover halved to NZ$12.6m from NZ$25m.

Lion Nathan fell another 25 cents to NZ$3.05 on volume of 230,000 shares on concern that Brierley Investments planned to sell its newly acquired 14.3 per cent stake in the brewing and retailing concern in the near future. Fletcher Challenge was steady at NZ$3.68 awaiting its six-month results due today.

AUSTRALIA was knocked lower after consumer price index data for the last quarter of 1990 showed a rise in inflation, which could delay any further easing in monetary policy. The All Ordinaries index lost 5.7 to 1,378.2, ending three days of gains. Turnover decreased to A$261m from A$309m.

HONG KONG overcame early weakness to close higher after active trading before the Chinese new year holidays. The Hang Seng index climbed 17.66 to 3,412.66, although turnover dipped to HK$1.46bn from HK$1.55bn.

SINGAPORE was elevated by a last-minute buying spree. The Straits Times Industrial index stood 8.8 lower at midday, but closed a net 4.41 higher at 1,323.25. Volume declined to S$157m (S$172m).

The most active issue yesterday was Malaysia's Idris, a finance company which has been the focus of rumours since a group of businessmen affiliated with the dominant political party secured control. Idris gained 7 cents to 71 cents on volume of 6.47m shares.

KUALA LUMPUR's composite index edged up 1.59 to 597.60 in turnover of 86m shares.

BANGKOK closed lower in reaction to a decision by the stock exchange to raise the cash margin to 60 per cent from 40 per cent. The SET index slipped 7.27 to 753.66 on turnover of 6.2bn baht.

SEOUL's composite index ended 3.20 easier at 644.91 after a much lower volume of Won175bn (Won267bn).

SOUTH AFRICA

A QUIET session in Johannesburg ended with share prices mixed to slightly higher yesterday. The all-gold index rose 9 to 1,035 and the industrial index added 12 to 3,113, leaving the all-share index 2 higher at 2,688.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY FEBRUARY 12 1991								MONDAY FEBRUARY 11 1991					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990/91 High	1990/91 Low	Year ago (approx)
Australia (75)	130.10	+1.7	96.93	105.47	98.28	110.93	+1.6	6.54	127.88	94.92	103.23	96.07	109.21	158.31	112.74	142.98
Austria (19)	200.35	+1.9	149.12	162.43	151.35	151.53	+2.3	1.80	196.58	145.91	158.69	147.69	148.14	285.63	167.00	246.22
Belgium (60)	148.23	+1.1	110.33	120.16	111.97	109.30	+1.2	5.39	146.67	108.86	118.39	110.19	107.97	160.02	121.73	139.58
Canada (116)	139.04	+0.5	103.49	112.71	105.03	116.14	+0.2	3.46	138.34	102.68	111.67	103.92	115.85	153.61	121.24	140.70
Denmark (32)	260.21	−0.1	193.67	210.95	196.56	197.92	+0.0	1.52	260.53	193.37	210.30	195.72	197.99	277.62	217.74	251.32
Finland (21)	105.45	+1.4	78.48	85.49	79.66	78.42	+1.6	3.89	104.01	77.20	83.97	78.14	77.22	152.29	90.61	149.63
France (113)	143.69	−1.1	106.94	116.48	108.54	111.83	−0.8	3.70	145.25	107.81	117.24	109.11	112.27	168.85	121.85	145.96
Germany (88)	119.90	−1.9	89.24	97.21	90.57	90.57	−1.4	2.51	122.25	90.74	98.70	91.84	91.84	144.63	101.38	130.29
Hong Kong (48)	137.92	+0.3	102.65	111.81	104.19	137.97	+0.2	4.86	137.55	102.09	111.08	103.34	137.63	147.49	112.24	117.90
Ireland (16)	160.54	−1.1	119.49	130.15	121.28	123.55	−0.9	3.70	162.32	120.48	131.03	121.95	124.61	198.57	132.88	193.92
Italy (91)	82.68	+0.5	61.54	67.03	62.46	67.54	+0.7	3.74	82.27	61.06	66.40	61.80	67.08	109.26	72.05	95.66
Japan (453)	143.37	+3.0	106.70	116.22	108.31	116.22	+3.4	0.74	139.20	103.32	112.37	104.59	112.37	197.26	108.58	163.47
Malaysia (34)	221.18	+1.4	164.62	179.30	167.08	229.23	+1.5	3.28	218.15	161.91	176.08	163.88	225.88	250.89	162.96	243.41
Mexico (12)	601.79	+0.2	447.90	487.86	454.60	1954.15	+0.4	0.35	600.39	445.63	484.64	451.05	1946.01	613.96	324.53	370.48
Netherland (41)	143.33	−0.2	106.68	116.20	108.28	107.12	+0.3	5.02	143.69	106.65	115.99	107.95	106.80	149.03	125.70	136.82
New Zealand (15)	52.31	+1.2	38.93	42.41	39.52	46.07	+1.0	7.37	51.72	38.38	41.75	38.85	45.61	75.36	41.18	67.40
Norway (30)	212.42	−0.2	158.10	172.21	160.47	163.98	+0.1	1.89	212.85	157.98	171.82	159.91	163.81	276.79	182.24	235.96
Singapore (25)	180.24	+1.5	134.15	146.12	136.16	142.20	+1.5	2.92	177.62	131.84	143.38	133.44	140.05	209.24	147.24	195.10
South Africa (60)	195.07	−0.4	145.19	158.14	147.38	133.24	−0.9	4.08	195.89	145.40	158.12	147.16	134.43	251.39	151.50	221.99
Spain (41)	161.49	−0.7	120.19	130.92	121.99	111.63	−0.5	5.09	162.58	120.67	131.24	122.14	112.14	182.25	128.54	164.96
Sweden (27)	181.10	−0.4	134.79	146.82	136.81	146.45	−0.1	2.79	181.82	134.95	146.77	136.60	146.63	234.93	146.60	188.17
Switzerland (65)	98.84	−0.3	73.56	80.13	74.67	76.26	+0.5	2.71	99.12	73.57	80.02	74.47	75.89	109.77	82.17	95.83
United Kingdom (296)	180.30	−0.7	134.19	146.15	136.19	134.19	−0.5	5.21	181.64	134.82	146.61	136.45	134.82	181.64	139.87	166.09
USA (526)	147.97	−0.8	110.13	119.96	111.78	147.97	−0.8	3.33	149.14	110.70	120.39	112.05	149.14	149.14	119.06	133.97
Europe (940)	146.33	−0.8	108.91	118.63	110.55	110.11	−0.4	4.23	147.45	109.44	119.02	110.77	110.53	157.65	124.91	141.46
Nordic (110)	186.27	−0.2	138.63	151.01	140.71	140.25	+0.0	2.17	186.63	138.52	150.65	140.21	140.25	223.29	156.55	192.96
Pacific Basin (650)	142.33	+2.9	105.93	116.38	107.52	116.41	+3.3	1.08	138.37	102.70	111.70	103.95	112.73	192.75	107.82	179.52
Euro-Pacific (1590)	144.32	+1.3	107.42	116.99	109.02	114.55	+1.7	2.39	142.44	105.72	114.97	107.00	112.62	174.18	116.03	164.50
North America (642)	147.33	−0.7	109.65	119.46	111.31	145.85	−0.7	3.34	148.39	110.14	119.79	111.50	146.92	148.43	119.26	134.28
Europe Ex. UK (644)	125.60	−0.8	93.48	101.84	94.90	96.03	−0.3	3.60	126.57	93.94	102.19	95.10	96.33	145.62	106.65	130.01
Pacific Ex. Japan (197)	129.30	+1.2	96.24	104.84	97.69	114.67	+1.1	5.55	127.81	94.87	103.19	96.03	113.44	146.72	111.40	132.04
World Ex. US (1778)	144.91	+1.3	107.85	117.49	109.47	115.28	+1.8	2.44	143.08	106.21	115.51	107.50	113.40	173.77	117.12	164.35
World Ex. UK (2008)	141.38	+0.7	105.21	114.60	106.79	124.54	+0.9	2.44	140.36	104.18	113.31	105.46	123.39	162.00	115.37	151.96
World Ex. So. Af. (2244)	144.51	+0.6	107.55	117.16	109.17	125.42	+0.8	2.74	143.71	106.67	116.02	107.97	124.44	161.84	118.04	152.06
World Ex. Japan (1851)	147.00	−0.7	109.41	119.18	111.06	130.31	−0.5	3.77	147.96	109.82	119.45	111.17	131.00	151.59	124.31	138.03
The World Index (2304)	144.81	+0.6	107.78	117.40	109.40	125.48	+0.8	2.75	144.03	106.90	116.27	108.21	124.51	162.05	118.33	152.49

Latest prices were unavailable for this edition.